This profile captures key financial trends before, during, and after the Great Recession for Atlanta, one of 30 cities examined by The Pew Charitable Trusts' American cities project. These profiles provide baselines for understanding the fiscal conditions of our cities and for ongoing research, analysis, and policy guidance.

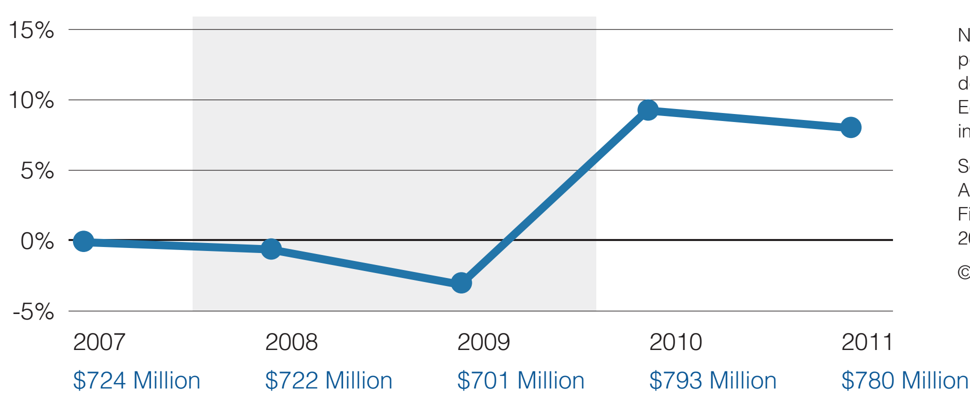
Atlanta

After revenue losses and deep cuts, Atlanta's property tax increase helped create a postrecession rebound

After bottoming out in 2009, Atlanta's revenue bounced back strongly in 2010, then dipped somewhat in 2011, a signal that problems remained two years after the end of the Great Recession. (See Figure 1.) An increase in property tax rates and growth in intergovernmental aid drove revenue to that 2010 high point; yet even as revenue grew, it was aggressive spending cuts that most helped the city cope with its fiscal woes and rebuild depleted reserves. Still, underfunded pension obligations and retiree health care promises pose continuing challenges, though a reform deal was reached with unions in 2011.[1]

FIGURE 1

Atlanta Governmental Revenue, Percent Change From Pre-downturn Peak, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

Source: Pew calculations from Atlanta's Comprehensive Annual Financial Reports for fiscal 2007-11.

Stark revenue declines between 2007 and 2009 drained reserves and led to deep cuts in public safety and services for residents

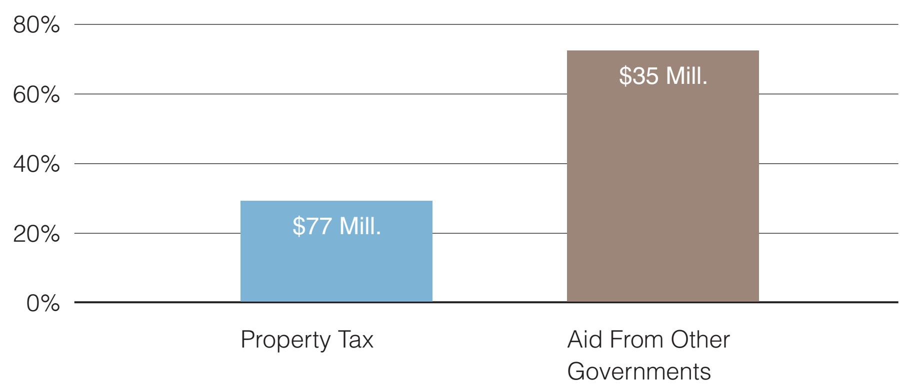
Between 2007 and 2009, Atlanta's total revenue declined $24 million to its low point of $701 million. Decreases in sales tax receipts, investment income, and license and permit fees offset gains in property tax collections. In response, the city drew down most of its $99 million reserve fund—leaving just $4 million, after adjusting for inflation—and cut spending. The city closed community centers and reduced public safety expenditures 14 percent.[2] In late 2008 and early 2009, police officers, firefighters, and other public workers endured furloughs that amounted to 10 percent pay cuts.[3] In 2009, city officials continued to sharply reduce operating expenditures, and, faced with depleted reserves, increased property tax rates and fees.[4]

Property tax and intergovernmental aid were key drivers in a sharp revenue rebound, but concerns remain

In 2009, the City Council passed a 36 percent increase in the property tax rate,[5] which led to revenue growth of $77 million in 2010 despite declining property values and loss of productive properties because of foreclosures.[6] (See Figure 2.) In addition, intergovernmental aid to the city, including funds from the American Recovery and Reinvestment Act, increased substantially between 2009 and 2010, from $47 million to $82 million, supplementing the rise in property tax revenue.[7]

FIGURE 2

Key Drivers of Change in Atlanta's Revenue, 2009-10



Source: Pew calculations from Atlanta's Comprehensive Annual Financial Reports for fiscal 2007-11.

In 2011, however, Atlanta's revenue growth waned, presenting another challenge for the city. Intergovernmental aid dipped $21 million, and property tax revenue dropped $14 million because of further declines in assessed values.[8] Spending reductions, which began in 2009, continued in 2010 and 2011, with further cuts to general governmental services and public safety. Those decreases contributed to the city's ability to rebuild its reserves to $81 million in 2011.[9]

Managing the future: Atlanta implemented pension changes to strengthen its long-term fiscal position

Spending commitments, demand for services, and revenue performance are among key factors that will affect Atlanta's future fiscal health. Long-term obligations which can be analyzed using the data available are pensions and retiree health care and other benefits.

Atlanta's four defined-benefit pension plans had just 53 percent of the amount needed to cover $4.1 billion in long-term commitments. In 2011, the city struck a deal with its unions that officials say will save

$277 million over 10 years.[10] The agreement requires current employees to pay a share of their contributions and creates a hybrid pension plan for new hires, among other changes. Atlanta also was one of 16 among the 30 studied that, as of 2010, had no funds set aside to pay for future retiree health care obligations.[11]

The City Council also adopted an ordinance requiring five-year budgeting designed to stabilize the economy and improve long-term viability.[12]

See Pew's 30-city interactive at pewstates.org/City-Fiscal-Conditions-Interactive for complete data.

Endnotes

1 See the full study methodology at pewstates.org/City-Fiscal-Methodology for a detailed explanation of the terms used in this profile and view the underlying data at pewstates.org/City-Fiscal-Conditions-Interactive.

2 City of Atlanta, *Comprehensive Annual Financial Report, for the Year Ended June 30, 2011* (2011), 165, http://www.atlantaga.gov/modules/showdocument.aspx?documentid=2341.

3 Scott Henry, "Atlanta Tax Hike Proposed to End Police Furloughs," *Creative Loafing Atlanta* (April 30, 2009), http://clatl.com/freshloaf/archives/2009/04/30/atlanta-tax-hike-proposed-to-end-police-furloughs; and Shaila Dewan, "A Slowdown That May Slow Us Down," *New York Times* (Feb. 28, 2009), http://www.nytimes.com/2009/03/01/weekinreview/01dewan.html.

4 Henry, "Atlanta Tax Hike Proposed to End Police Furloughs."

5 The property tax rate increased from $8.80 per $1,000 of valuation in 2009 to $11.94 a year later.

6 The property tax rate is composed of the city's General Levy, Parks Levy, and City Bond Levy. Other components of Atlanta's Total Direct Tax Rate (School Levy and School Bond Levy) were not included and remained constant from 2009 to 2010. City of Atlanta, *Comprehensive Annual Financial Report, for the Year Ended June 30, 2011*, 148-149; and RealtyTrac, "More Than 1.2 Million Foreclosure Filings Reported in 2006" (Jan. 25, 2007), http://www.realtytrac.com/content/press-releases/more-than-12-million-foreclosure-filings-reported-in-2006-2234. The Atlanta property tax increase was enacted by the City Council in June 2009 by an 8-7 vote. There was no state involvement, and the matter did not go to the voters. Henry Unger, "Your Turn on Atlanta's Property-tax Increase," *Atlanta Journal-Constitution* (June 29, 2009), http://blogs.ajc.com/business-beat/2009/06/29/your-turn-on-atlantas-property-tax-increase.

7 City of Atlanta, *Comprehensive Annual Financial Report, for the Year Ended June 30, 2011*, 8, 145.

8 City of Atlanta, *Comprehensive Annual Financial Report, for the Year Ended June 30, 2011*, 7.

9 The Pew Charitable Trusts, American cities project, analysis of *Comprehensive Annual Financial Report, for the Year Ended June 30, 2011*.

10 Moody's Investors Service, "Moody's Affirms Aa2 Rating on the City of Atlanta's (GA) Outstanding General Obligation Debt; Outlook Revised to Stable from Negative" (2012), rating update, 4; and Jim Galloway, "The Deal Is Struck: Atlanta Pension Overhaul Agreement Reached," *Atlanta Journal-Constitution* (2011), http://blogs.ajc.com/political-insider-jim-galloway/2011/06/23/the-deal-is-struck-atlanta-pension-overhaul-agreement-reached.

11 For more information on and analysis of the state of retirement funding in the 30 cities, see The Pew Charitable Trusts, American cities project, *Cities Squeezed by Pension and Retiree Health Care Shortfalls*, issue brief (March 2013), http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_city_pensions_brief.pdf.

12 City of Atlanta, *Five Year Financial Plan* (Oct. 14, 2009), 10, http://www.atlantaga.gov/modules/showdocument.aspx?documentid=3438.

THE PEW CHARITABLE TRUSTS

This profile captures key financial trends before, during, and after the Great Recession for Baltimore, one of 30 cities examined by The Pew Charitable Trusts' American cities project. These profiles provide baselines for understanding the fiscal conditions of our cities and for ongoing research, analysis, and policy guidance.

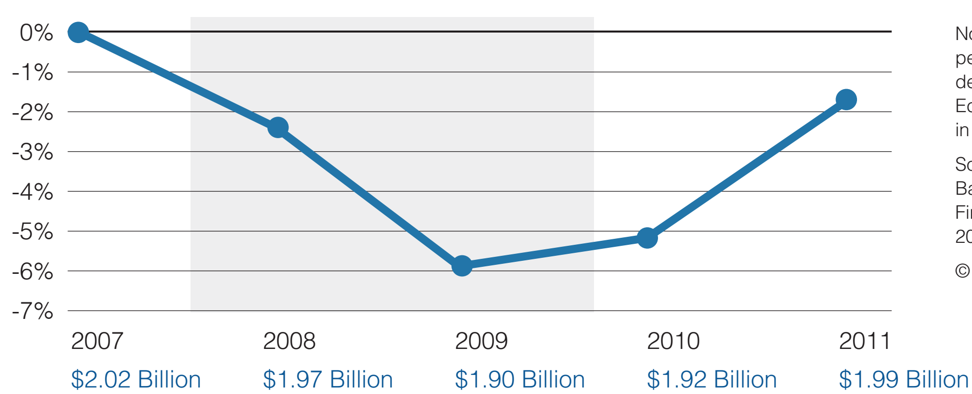
Baltimore

Baltimore's revenue in 2011 remained below the previous peak, and the city faces challenges in its long-term obligations

By 2011, revenue was still 2 percent below prerecession levels, and the city's financial outlook was mixed. (See Figure 1.) After revenue bottomed out in 2009, property tax collections contributed to a revenue uptick, and the city kept operating spending flat between 2009 and 2011. Strides have been made in building reserves, but unfunded retirement obligations remain a concern in city finances.[1]

FIGURE 1

Baltimore Governmental Revenue, Percent Change From Pre-downturn Peak, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

Source: Pew calculations from Baltimore's Comprehensive Annual Financial Reports for fiscal 2007-11.

Growth in Baltimore's property tax collections helped the city recover from early losses in intergovernmental aid

Cuts in intergovernmental aid, declines in taxes on property transfers due to the weakness of the local housing market, and a sharp drop in investment-related income drove revenue to a bottom of $1.9 billion in fiscal 2009.[2] From that low point, Baltimore's revenue partially rebounded between 2009 and 2011 because of increases in property tax collections, charges and fees, and intergovernmental aid.

Property tax revenue grew $105 million after adjusting for inflation, despite falling assessed property values and static tax rates, mainly because, in the declining market, homeowners could not take advantage of Maryland's Homestead Tax Credit, a mechanism to control tax increases when values are rising.[3] Charges and fees increased $14 million based on increases in licenses and permits and in fine and forfeiture collections, and intergovernmental aid grew modestly between 2009 and 2011, a period that included receipt of federal funds as part of the American Recovery and Reinvestment Act. But despite these increases, Baltimore's revenue did not recover to the prerecession peak.

Spending stayed flat during the rebound, helping Baltimore close gaps

Even as revenue began to rebound after the Great Recession—growing 4 percent between 2009 and 2011—operating spending stayed flat as the city rebuilt its financial cushion. While some spending grew, the largest cuts were in housing and economic development and public safety, which together declined by $48 million. Cuts in police and fire department overtime accounted for approximately half of that reduction. The city also implemented employee furloughs and layoffs.[4]

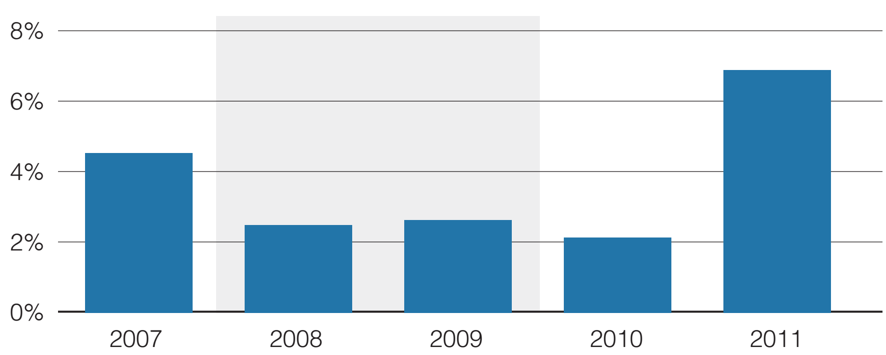
Managing the future: Long-term obligations continued to place fiscal stress on Baltimore

Demand for services, investment decisions, and revenue performance driven by economic activity and demographic changes will shape Baltimore's fiscal future. Long-term factors of financial health, which can be analyzed using the data available, are pensions and retiree health care obligations and reserve levels.[5]

After using more than half of its general fund reserves, the city rebuilt its balance to $95 million in 2011 (58 percent higher than in 2007) to better address future budget gaps. (See Figure 2.) But pension obligations remain a concern. The system's total funding level fell from 91 percent in 2007 to 81 percent in 2010.

FIGURE 2

Baltimore Reserve Funds as a Percent of Total General Fund Revenue, 2007-11



Note: Reserve funds are represented by the unreserved general fund balance as a percent of total general fund revenues. Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research.

Source: Pew calculations from Baltimore's Comprehensive Annual Financial Reports for fiscal 2007-11.

The city's position was further worsened by 2010 state legislation that required all Maryland municipalities to take on some teacher pension commitments.[6] The same year, the city enacted pension reform, but a federal court struck down a major provision of the law in 2012, finding disproportionately negative effects on younger police and firefighters.[7] At the time of publication, the city was appealing the verdict; if it is upheld, pension costs would increase.

An independent audit in 2013 characterized police and firefighter pensions as a growing and major financial issue,[8] and the findings of a more comprehensive 10-year forecast commissioned by Mayor Stephanie Rawlings-Blake affirm those conclusions. The study warned that absent further reforms, the city faces several years of growing fiscal stress and cited unfunded pension liabilities and a significant infrastructure gap, among other challenges.[9]

See Pew's 30-city interactive at pewstates.org/City-Fiscal-Conditions-Interactive for complete data.

Endnotes

1 See the full study methodology at pewstates.org/City-Fiscal-Methodology for a detailed explanation of the terms used in this profile and view the underlying data at pewstates.org/City-Fiscal-Conditions-Interactive.

2 Ryan Sharrow, "Greater Baltimore Home Sales Rise for the First Time Since 2007," *Baltimore Business Journal* (July 10, 2009), http://www.bizjournals.com/baltimore/stories/2009/07/06/daily55.html.

3 Jamie Smith Hopkins, "Property-Tax Bill Rising? Here's One Reason Why," *The Baltimore Sun* (July 8, 2011), http://weblogs.baltimoresun.com/business/realestate/blog/2011/07/propertytax_bill_rising_heres_one_reason_why.html.

4 Moody's Investor Service, *Moody's Assigns Aa2 Rating and Stable Outlook to City of Baltimore $54.7 Million G.O. Bonds of 2011* (2011), new issue, 2.

5 For more information and analysis on the state of retirement funding in the 30 cities, see The Pew Charitable Trusts, American cities project, *Cities Squeezed by Pension and Retiree Health Care Shortfalls*, issue brief (March 2013), http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_city_pensions_brief.pdf.

6 Annie Linskey, "Teacher Pension Shift Gets an OK," *The Baltimore Sun*, (March 20, 2010), http://articles.baltimoresun.com/2010-03-20/news/bal-md.budget20mar20_1_teacher-pension-cell-research-funds-vacant-positions.

7 *Robert F. Cherry Jr. et al. v. Mayor and City Council of Baltimore City et al.*, Maryland District Court (2012), http://law.justia.com/cases/federal/district-courts/maryland/mddce/1:2010cv01447/179097/167.

8 Luke Broadwater, "Audits Detail Fiscal Problems of City Phone System, Pensions," *The Baltimore Sun*, (March 7, 2013), http://www.baltimoresun.com/news/maryland/baltimore-city/bs-md-ci-audits-20130306,0,1374046.story.

9 Public Financial Management Inc., *City of Baltimore, Maryland Ten-Year Fiscal Forecast* (2013), http://www.wbaltv.com/blob/view/-/18432124/data/2/-/1ekt38/-/Fiscal-Forecast-pdf.pdf; and WBAL-TV, "Report: Baltimore forecasts financial ruin in 10 years" (Feb. 7, 2013), http://www.wbaltv.com/news/maryland/baltimore-city/Report-Baltimore-forecasts-financial-ruin-in-10-years/-/10131532/18428792/-/10oat7pz/-/index.html#ixzz2VvUi9hEC.

This profile captures key financial trends before, during, and after the Great Recession for Boston, one of 30 cities examined by The Pew Charitable Trusts' American cities project. These profiles provide baselines for understanding the fiscal conditions of our cities and for ongoing research, analysis, and policy guidance.

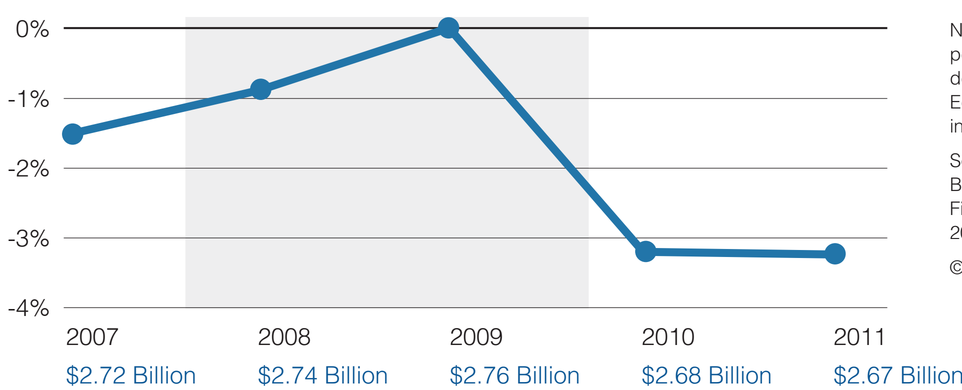
Boston

Boston revenue was hit late by the Great Recession

Two years after the end of the Great Recession, Boston's revenue was still dropping. With limited revenue sources under its direct control, the city relied heavily on aid from federal and state governments—sources that declined between 2009 and 2011. Revenue was down more than 3 percent in fiscal 2011 from the 2009 peak. (See Figure 1.) Operating spending increased 1 percent, largely due to efforts to shore up long-term obligations, and the city tapped reserves to cover shortfalls.[1]

FIGURE 1

Boston Governmental Revenue, Percent Change From Pre-downturn Peak, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

Source: Pew calculations from Boston's Comprehensive Annual Financial Reports for fiscal 2007-11.

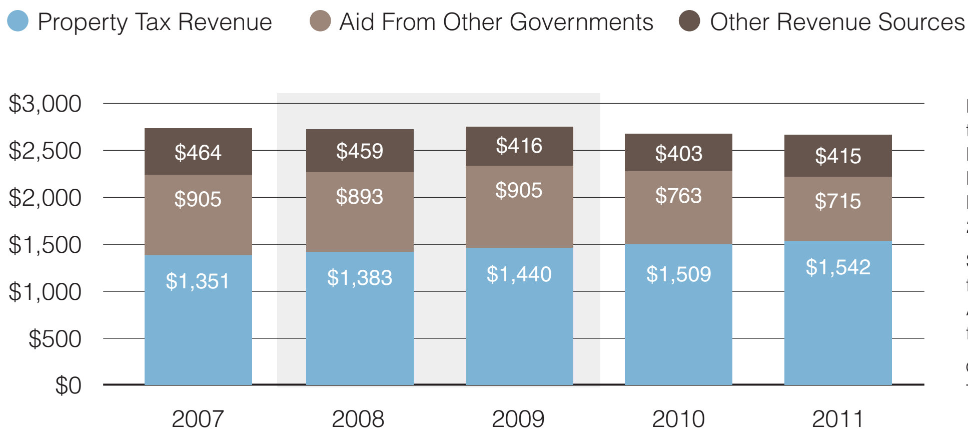
Intergovernmental aid declined, but property tax growth offset some losses

Intergovernmental aid declined $190 million between 2009 and 2011, despite funding from the American Recovery and Reinvestment Act, driving Boston's revenue to a five-year low.[2] Similar to five other cities examined, Boston does not levy either income or local sales taxes,[3] making it more vulnerable to declines in other sources, such as aid from the state and federal governments.

Property tax collections increased $102 million between 2009 and 2011 as a result of a tax rate increase, but that growth was not enough to offset the declines in intergovernmental aid.[4] Nevertheless, property taxes, which accounted for $6 of every $10 in city revenue in 2011, continued to grow in 2012.[5] (See Figure 2.)

FIGURE 2

Breakdown of Boston's Revenue (in millions), 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

Source: Pew calculations from Boston's Comprehensive Annual Financial Reports for fiscal 2007-11.

Reserves provided a cushion between decreased revenue and increased operating spending

Despite the revenue losses, operating spending increased 1 percent between 2009 and 2011, putting more pressure on the city's finances. Boston used some of its reserves to make up the difference, drawing its balance down by $301 million from 2009 to 2011. Still, reserves remained strong and were sufficient to replace one-fifth of general fund revenue in 2011.

Managing the future: Boston took steps to shore up pension funds

Spending commitments, demand for services, and revenue performance are among key factors that will affect Boston's future fiscal health. Two long-term obligations which can be analyzed using the data available are pensions and retiree health care and other benefits.

As of 2010, the city's pension assets covered just 62 percent of liabilities, and nothing was set aside to cover $4.6 billion in retiree health care liabilities.[6] To improve its fiscal standing, the city took forward-looking steps.[7]

Between 2009 and 2011, Boston's largest area of spending growth was annual payments to cover retirement obligations. Annual contributions toward these costs more than doubled to $198 million and annual spending on other employee benefits increased 50 percent to $297 million in 2011 after adjusting for inflation.[8]

These changes—and continued fiscal discipline—suggest that the city's retirement system is headed toward a more solid financial footing. According to city projections, if Boston continues to pay its actuarially recommended contribution and other assumptions are met, the pension system will be fully funded by 2025.[9]

See Pew's 30-city interactive at pewstates.org/City-Fiscal-Conditions-Interactive for complete data.

Endnotes

1 See the full study methodology at www.pewstates.org/City-Fiscal-Methodology for a detailed explanation of the terms used in this profile and view the underlying data at www.pewstates.org/City-Fiscal-Conditions-Interactive.

2 City of Boston, *Comprehensive Annual Financial Report, for the Fiscal Year Ended June 30, 2011.* (2011) p. v, http://www.cityofboston.gov/auditing/reports/cafr.asp. Boston received a total of $179.5 million in Recovery Act funds from the federal government and the state of Massachusetts as of 2011; $57.1 million was received in 2011 alone.

3 Boston recently added a local tax on restaurants, but does not collect a broader sales tax.

4 The weighted average of residential, commercial, and industrial levies increased from $16.63 per $1,000 of property value in 2009 to $19.15 in 2011. Residential rates increased from $10.63 to $12.79, a 20 percent jump, while commercial, industrial, and personal property tax rates increased from $27.11 to $31.04, a 14 percent rise.

5 Part of the reason property tax collections are such a large piece of total revenue in Boston is that the city is one of four that Pew examined which operate and fund the school system and thus collect school district property tax levies that in many jurisdictions go to independent school boards.; City of Boston, *Comprehensive Annual Financial Report, for the Fiscal Year Ended June 30, 2012* (2012), p. 68, http://www.cityofboston.gov/auditing/reports/cafr.asp. Many cities studied by Pew's American cities project had published comprehensive annual financial reports for 2012 as of the publication of these profiles, but some cities had not. Thus, the study period was defined as 2007 through 2011, though fiscal data from 2012 was used where appropriate.

6 For more information and analysis on the state of retirement funding in the 30 cities, see The Pew Charitable Trusts, American cities project, *Cities Squeezed by Pension and Retiree Health Care Shortfalls* (March 2013), http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_city_pensions_brief.pdf.

7 In 2011, the city transferred $82 million in reserves to the State-Boston Retirement System. See City of Boston, *Comprehensive Annual Financial Report, for the Fiscal Year Ended June 30, 2011* (2011), p. 6, http://www.cityofboston.gov/auditing/reports/cafr.asp.

8 These figures include transfers of reserves to the State-Boston retirement system, which reduced unfunded liabilities as part of a plan to fully fund the system; City of Boston, *Comprehensive Annual Financial Report, for the Fiscal Year Ended June 30, 2009* (2009.), p. 22.; City of Boston, *Comprehensive Annual Financial Report, for the Fiscal Year Ended June 30, 2011* (2011), p. 20.

9 Sam Tyler, *Testimony of the Boston Municipal Research Bureau*, Boston Municipal Research Bureau (2012), http://www.bmrb.org/content/upload/COLA423.pdf.

THE PEW CHARITABLE TRUSTS

This profile captures key financial trends before, during, and after the Great Recession for Chicago, one of 30 cities examined by The Pew Charitable Trusts' American cities project. These profiles provide baselines for understanding the fiscal conditions of our cities and for ongoing research, analysis, and policy guidance.

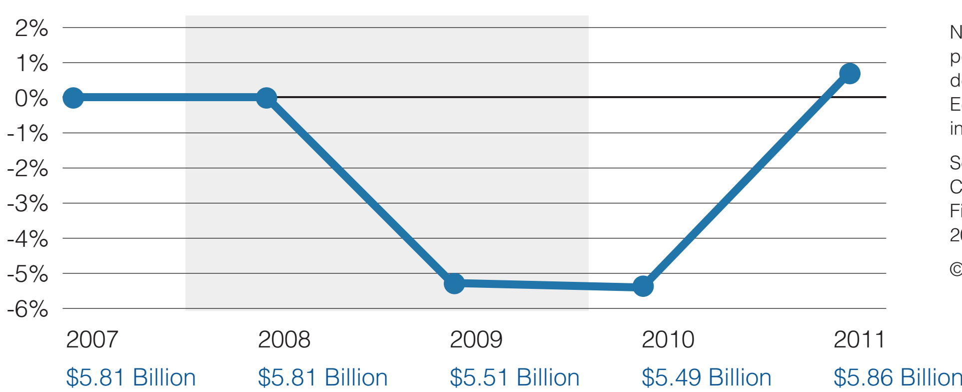
Chicago

Chicago rebounded strongly in 2011 after a late revenue dip

Although Chicago experienced prolonged effects from the Great Recession, with revenue declining from 2008 to 2010, the city bounced back dramatically in 2011, surpassing its previous peak. Total revenue was up $366 million from the 2010 low on the strength of property taxes and intergovernmental aid. (See Figure 1.) Despite a commensurate increase in operating spending after earlier cuts, the city was able to replenish its reserve fund after years of drawdowns. Still, financial hurdles remain, and retirement obligations present a challenge for the city's fiscal future.[1]

FIGURE 1

Chicago Governmental Revenue, Percent Change From Pre-downturn Peak, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

Source: Pew calculations from Chicago's Comprehensive Annual Financial Reports for fiscal 2007-11.

As revenue declined, budget gaps prompted one-time measures and spending cuts

The Great Recession hit nearly all of Chicago's revenue categories. Although property and sales taxes and intergovernmental aid are key elements of the city's revenue, Chicago's assortment of other taxes, including a real estate transaction tax and a levy on city taxis and private transportation companies, was the biggest driver of the revenue declines. These collections dropped $216 million between 2008 and the low point in 2010. Total intergovernmental aid decreased $56 million during the same period despite passage of the

American Recovery and Reinvestment Act. Revenue from a local sales tax of 1.25 percent also fell $33 million after adjusting for inflation.[2] Increases of $41 million in miscellaneous nontax revenue and $10 million in property tax revenue offset some of the declines but could not stem a $317 million loss overall.

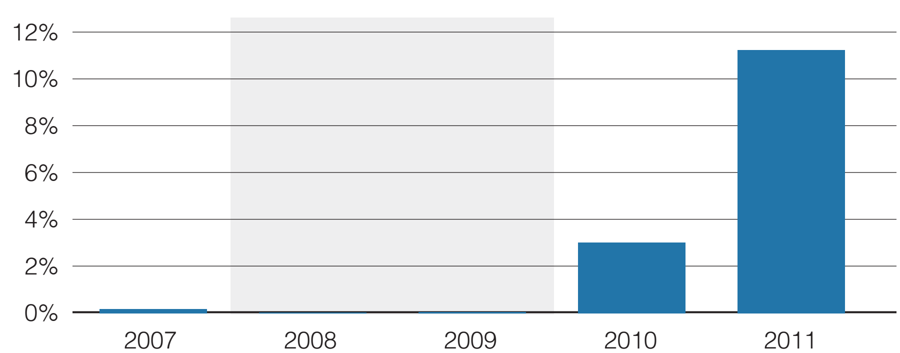
The losses, which hit in 2008 when the city had essentially no reserves remaining, prompted leaders to consider new revenue sources, including leases of publicly owned infrastructure. Having leased four downtown parking garages in 2006, Chicago leased the parking meter system in 2009 as a stopgap measure.[3] In addition, the city reduced total operating spending $607 million from 2008 to 2010, including an 8 percent cut in the number of full-time equivalent positions.[4] In 2009, the City Council approved furloughs for nonunion workers as an alternative to layoffs, a move it estimated would save more than $14 million.[5] Cuts in debt service payments and public works and transportation were the largest, with most other spending categories also reduced.[6]

After a revenue rebound, Chicago did not restore all spending levels but did fund reserves

In 2011, rebounding revenue allowed the city to reverse some of the cuts enacted during and after the recession. Every revenue category grew from 2010 to 2011, led by property taxes (a $120 million increase) and intergovernmental aid (a $96 million increase). Operating spending in 2011 grew $334 million from the year before, including increases of $236 million for general government and $204 million for public works and transportation. Social services spending, however, did not bounce back with revenue. Citywide, full-time equivalent employment decreased by 441 positions from 2010 to 2011.[7] At the same time, reserves grew to more than $300 million, or 11 percent of general fund revenue. (See Figure 2.)

FIGURE 2

Chicago Reserve Funds as a Percent of Total General Fund Revenue, 2007-11



Note: Reserve funds are represented by the unreserved general fund balance as a percent of total general fund revenues. Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research.

Source: Pew calculations from Chicago's Comprehensive Annual Financial Reports for fiscal 2007-11.

Managing the future: Pension and retiree health care pose a threat to Chicago's long-term fiscal health

Spending commitments, demand for services, and revenue performance are among the key factors that will affect Chicago's future fiscal health. Long-term obligations that can be analyzed using the data available are pensions and retiree health care and other benefits.

Although the city improved its outlook by taking advantage of lower interest rates to refinance much of its variable-rate debt, in keeping with its debt management policy, its unfunded retirement obligations pose a long-term fiscal threat.[8] At the end of 2010, assets covered less than half of total liabilities in the city's four pension plans.

Mayor Rahm Emanuel's administration pledged to work with the state to improve the situation. In testimony before the Illinois General Assembly in May 2012, Emanuel laid out a pension-reform plan that would raise the retirement age for public workers and freeze annual cost-of-living increases.[9]

The city's 2010 obligation for long-term retiree health care was $869 million, but, like 16 of the 30 cities examined, Chicago did not fund it.[10] In January 2013, Emanuel appointed a four-member task force to find ways of controlling growing retiree health care costs. The task force recommended trimming benefits, reducing support for dependents, and replacing city-funded plans for certain retirees with coverage provided under the Affordable Care Act.[11]

In March 2013, Moody's downgraded Chicago's credit rating, citing Illinois' fiscal struggles and the need for stronger pension reform. It issued a further downgrade in July because of the expected strain of increased pension contributions in coming years.[12]

See Pew's 30-city interactive at pewstates.org/City-Fiscal-Conditions-Interactive for complete data.

Endnotes

1 See the full study methodology at pewstates.org/City-Fiscal-Methodology for a detailed explanation of the terms used in this profile and view the underlying data at pewstates.org/City-Fiscal-Conditions-Interactive.

2 State of Illinois, Locally Imposed Sales Taxes Administered by the Department of Revenue, 2, http://tax.illinois.gov/publications/LocalGovernment/ST-62.pdf.

3 City of Chicago, *Comprehensive Annual Financial Report, for the Year Ended December 31, 2006* (2006), 65, http://www.cityofchicago.org/dam/city/depts/fin/supp_info/CAFR/2006/CAFR2006.pdf; City of Chicago, *Comprehensive Annual Financial Report, for the Year Ended December 31, 2009* (2009), 16, http://www.cityofchicago.org/content/dam/city/depts/fin/supp_info/CAFR/2009/CAFR2009.PDF.

4 City of Chicago, *Comprehensive Annual Financial Report, for the Year Ended December 31, 2010* (2010), 170, http://www.cityofchicago.org/dam/city/depts/fin/supp_info/CAFR/2010/CAFR2010.pdf.

5 Chicago City Council, City Clerk Journal of Proceedings, Reports of Committees (July 29, 2009), 66459, http://docs.chicityclerk.com/journal/2009/july29_2009/july29_2009_Finance.pdf; and Phil Rogers and B.J. Lutz, "City Council Approves Furlough Days" (July 28, 2009), WMAQ-TV, retrieved April 11, 2013, http://www.nbcchicago.com/news/business/City-Council-Approves-Furlough-Days.html.

6 Chicago does not finance or run its public school system, although the school board is appointed by the mayor. The school district's fiscal challenges, which resulted in announced school closures in early 2013, have no direct financial implications for the city's budget and thus were not included in this analysis; Judy Keen, "Chicago school closings ignite furor and fears," *USA Today* (March 29, 2013), http://www.usatoday.com/story/news/nation/2013/03/28/fears-of-gang-fights-cloud-chicago-school-closings/2029411.

7 City of Chicago, *Comprehensive Annual Financial Report, for the Year Ended December 31, 2011*, 172, http://www.cityofchicago.org/content/dam/city/depts/fin/supp_info/CAFR/2011/CAFR_2011.pdf.

8 City of Chicago, Debt Management Policy for the City of Chicago (2007), http://www.cityofchicago.org/dam/city/depts/fin/Bonds/debt_mgmt_policy.pdf.

9 Chicago Mayor Rahm Emanuel, testimony, House Committee on Personnel and Pensions (May 8, 2012), http://www.ilga.gov/house/transcripts/htrans97/09700132.pdf; Fran Spielman and Dave McKinney, "Rahm's Pension Reform: Freeze Retiree Pay Hikes, Up Retirement Age," *Chicago Sun-Times* (May 8, 2012), http://www.suntimes.com/news/cityhall/12396286-418/rahm-emanuel-taxes-in-chicago-will-soar-without-pension-reforms.html.

10 For more information on and analysis of the state of retirement funding in the 30 cities, see The Pew Charitable Trusts, American cities project, *Cities Squeezed by Pension and Retiree Health Care Shortfalls* (March 2013), http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_city_pensions_brief.pdf.

11 City of Chicago, Retiree Healthcare Benefits Commission, *Report to the Mayor's Office on the State of Retiree Healthcare* (2013), http://www.cityofchicago.org/content/dam/city/depts/fin/supp_info/Benefits/RHBC/ReportToMayor/RHBC_Report_to_the_Mayor.pdf.

12 Hal Dardick and Rafael Guerrero, "State Woes Hurt City's Credit Rating," *Chicago Tribune* (March 15, 2013), http://articles.chicagotribune.com/2013-03-15/news/ct-met-illinois-legislature-pension-reform-0315-20130315_1_pension-reform-pension-finances-pension-debt; and Tim Jones and Amanda J. Crawford, "Moody's Cuts Chicago Rating Amid Crime, Pension Liability," Bloomberg (July 18, 2013), http://www.bloomberg.com/news/2013-07-18/moody-s-cuts-chicago-rating-amid-crime-pension-liability.html.

This profile captures key financial trends before, during, and after the Great Recession for Cincinnati, one of 30 cities examined by The Pew Charitable Trusts' American cities project. These profiles provide baselines for understanding the fiscal conditions of our cities and for ongoing research, analysis, and policy guidance.

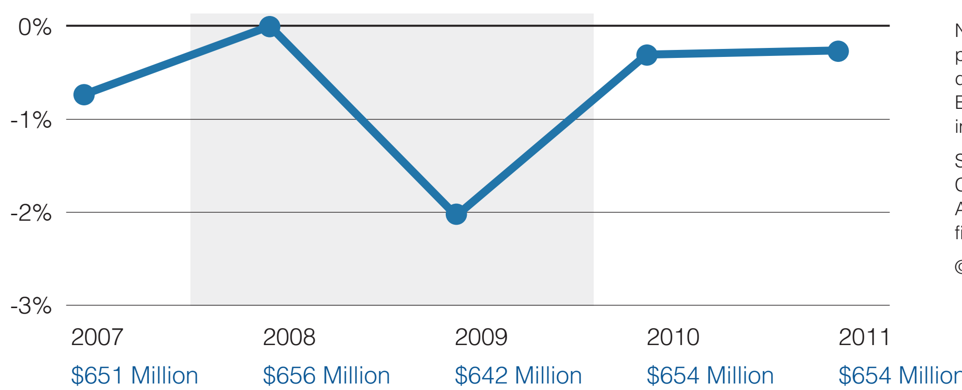
Cincinnati

Cincinnati cut spending and rebuilt its reserves even as revenue declined slightly

Cincinnati's revenue bounced back from the Great Recession in 2011, nearly reaching its pre-downturn peak, but financial challenges remain. The city's total revenue stayed flat through the recession and recovery relative to other cities—declining only 2 percent between the crest in 2008 and the 2009 low point. (See Figure 1.) Intergovernmental aid was a major driver of growth between 2009 and 2011. But even as revenue rebounded, Cincinnati cut its operating spending, particularly public works and transportation, allowing the city to replenish its reserves. Still, underfunded pension obligations pose a long-term challenge.[1]

FIGURE 1

Cincinnati Governmental Revenue, Percent Change From Pre-downturn Peak, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

Source: Pew calculations from Cincinnati's Comprehensive Annual Financial Reports for fiscal 2007-11.

Rising unemployment drove income taxes down before intergovernmental aid helped the city rebound

Cincinnati's revenue categories declined modestly during the Great Recession. Receipts from the 2.1 percent income tax imposed on all individuals who live or work in the city declined $17 million between 2008 and 2009, after adjusting for inflation, driving overall revenue losses.[2] During this period, unemployment ranged from a historic low of 4.7 percent in April 2008 to 10.7 percent in January 2010.[3]

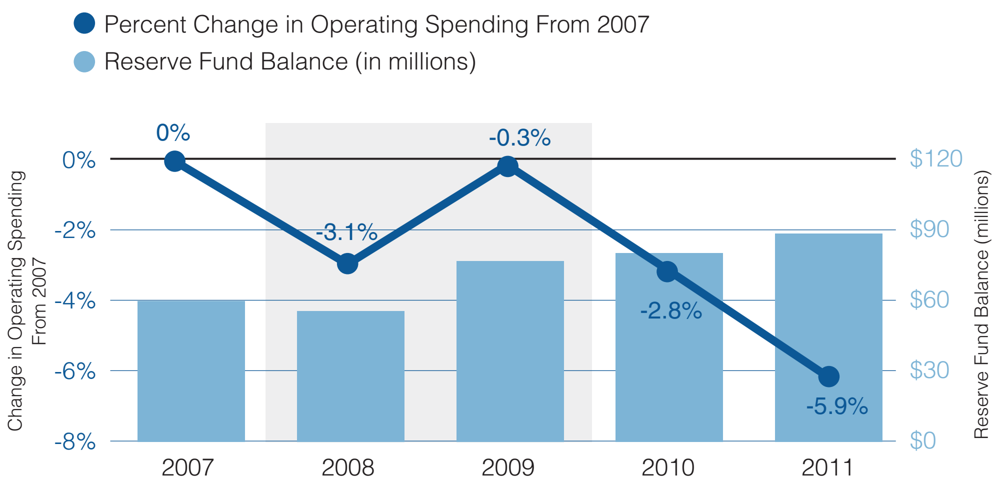
By 2011, improving employment—due in part to effects of the auto bailout—spurred a $4 million increase in Cincinnati's income tax receipts from 2009.[4] Aid from other governments, however, was a significant factor in the rebound, increasing $18 million between 2009 and 2011, a period that included an influx of funds from the American Recovery and Reinvestment Act.[5]

Spending reductions allowed reserves to grow

With revenue down, Cincinnati relied heavily on nearly across-the-board spending cuts between 2009 and 2011, enabling it to restore reserves. A $14 million cut to public works and transportation expenditures included less funding for transit and recycling, and, because of mild weather in 2011, for winter maintenance.[6] At the same time, spending on public safety, the largest category, did not keep up with inflation, resulting in a $9 million decline in real dollars. Cincinnati used the difference between growing revenue and shrinking spending to put money in its reserves, which grew $35 million between 2008 and 2011, reaching 26 percent of general fund revenue.[7] (See Figure 2.)

FIGURE 2

Change in Cincinnati Reserve Funds and Operating Spending, 2007-11



Note: Reserve funds are represented by the unreserved general fund balance as a percent of total general fund revenues. Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research.

Source: Pew calculations from Cincinnati's Comprehensive Annual Financial Reports for fiscal 2007-11.

Managing the future: City leaders continue to consider pension reform to better manage long-term obligations

Demand for services, investment decisions, and revenue performance driven by economic activity and demographic changes will shape Cincinnati's fiscal future. Long-term factors of financial health, which can be analyzed using the data available, are pensions and retiree health care obligations and reserve levels.

In addition to growing the reserve balance designed to guard against future downturns, Cincinnati improved its long-term outlook by setting aside more money for retiree health care obligations than the other 29 cities examined. With a funding level in excess of 100 percent in 2010, Cincinnati was one of only three cities studied with even half of these obligations funded. In that same year, the city implemented retiree health care changes that extended years-of-work requirements, increased employee contributions for medical coverage, and helped to control rising medical costs.[8]

One area of long-term concern is pensions. Cincinnati's pensions were 73 percent funded in 2010, down from 85 percent in 2007. With plan investments underperforming over the past several years and costs on the rise, city leaders, at press time, were considering changes similar to those implemented in retiree health care, especially cost-of-living increases.[9]

See Pew's 30-city interactive at pewstates.org/City-Fiscal-Conditions-Interactive for complete data.

Endnotes

1 See the full study methodology at pewstates.org/City-Fiscal-Methodology for a detailed explanation of the terms used in this profile and view the underlying data at pewstates.org/City-Fiscal-Conditions-Interactive.

2 Tax Foundation, "Local Income Tax Rates by Jurisdiction, 2011" (2011), http://taxfoundation.org/article/local-income-tax-rates-jurisdiction-2011.

3 Pew analysis of U.S. Bureau of Labor Statistics, "Unemployment Rate—Not Seasonally Adjusted" (2013), http://www.bls.gov/lau.

4 City of Cincinnati, *Comprehensive Annual Financial Report, for the Year Ended December 31, 2011* (2011), 24, http://www.cincinnati-oh.gov/finance/linkservid/50D130DB-D8A4-40EB-CE82B71DF1791E10/showMeta/0; and Matt Bai, "Did Barack Obama Save Ohio?" *New York Times Magazine* (Sept. 5, 2012), http://www.nytimes.com/2012/09/09/magazine/ohio-economy.html.

5 An accounting shift moved $28.6 million of tax-increment financing collections from property taxes into miscellaneous revenue in 2010; City of Cincinnati, *Comprehensive Annual Financial Report, for the Year Ended December 31, 2010* (2010), 26, http://www.cincinnati-oh.gov/finance/linkservid/E4EA28D0-F3BE-31C7-659813359BD772E7/showMeta/0.

6 City of Cincinnati, *Comprehensive Annual Financial Report, for the Year Ended December 31, 2011*, 27.

7 The 26 percent figure Pew cites includes both assigned and unassigned fund balances, a methodology that resulted in a one-time rise in reserves from fiscal 2008 to 2009. In its 2010 annual financial report, the city choses to highlight the unassigned balance only, which in 2010 was at 14 percent rather than 22 percent.

8 Barry Horstman, "City Retirees Misled, but Lose Anyway," *Cincinnati.com* (Nov. 7, 2012), http://news.cincinnati.com/article/AB/20121107/news01/311070145/City-retirees-misledlose-anyway.

9 Barry Horstman, "No Letup for Cincinnati's Distressed Pension Plan," *Cincinnati.com* (Jan. 2, 2013), http://news.cincinnati.com/article/20130101/NEWS010801/301010055. For more information on and analysis of the state of retirement funding in the 30 cities, see The Pew Charitable Trusts, American cities project, *Cities Squeezed by Pension and Retiree Health Care Shortfalls* (March 2013), http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_city_pensions_brief.pdf.

This profile captures key financial trends before, during, and after the Great Recession for Cleveland, one of 30 cities examined by The Pew Charitable Trusts' American cities project. These profiles provide baselines for understanding the fiscal conditions of our cities and for ongoing research, analysis, and policy guidance.

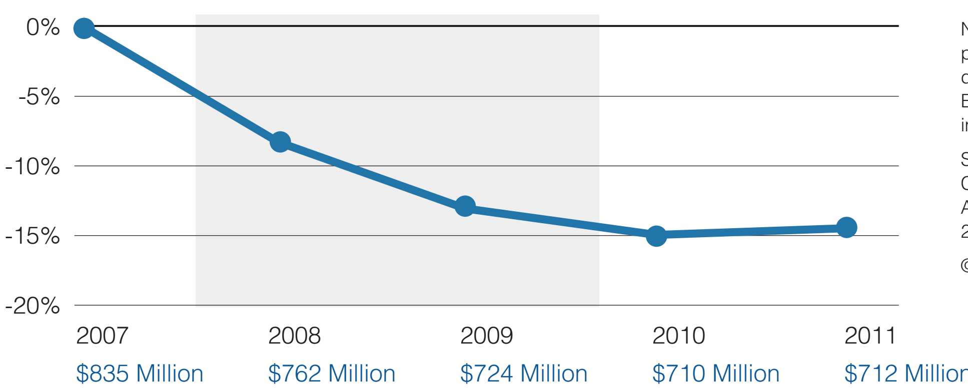
Cleveland

Unanticipated revenue shortfalls precipitated cuts and wiped out reserves in Cleveland

After falling sharply through the Great Recession, Cleveland's revenue remained near the low point in 2011, prolonging the city's financial challenges. (See Figure 1.) Cuts in aid from federal and state governments hit Cleveland hard in 2008. A drop in income tax receipts in 2009, followed by declines in property tax collections, aggravated the fiscal woes. Resulting revenue shortfalls prompted deep spending cuts and temporarily drained reserves. Additional cuts to expenditures helped restore Cleveland's reserves in 2011. But, the city faced significant unfunded retirement obligations.[1]

FIGURE 1

Cleveland Governmental Revenue, Percent Change From Pre-downturn Peak, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

Source: Pew calculations from Cleveland's Comprehensive Annual Financial Reports for fiscal 2007-11.

Intergovernmental aid and unanticipated drops in income tax led revenue declines

In Cleveland, overall revenue fell $125 million between the high point in 2007 and the 2010 low. A key driver was a $70 million loss in intergovernmental aid, which had been the city's largest source of nontax general fund income since 1993.[2] In particular, the amount of state revenue shared with Cleveland declined beginning in 2000, because of the city's declining population and the state's own fiscal choices.[3] Even stimulus funds from the American Recovery and Reinvestment Act were not enough to turn the tide.

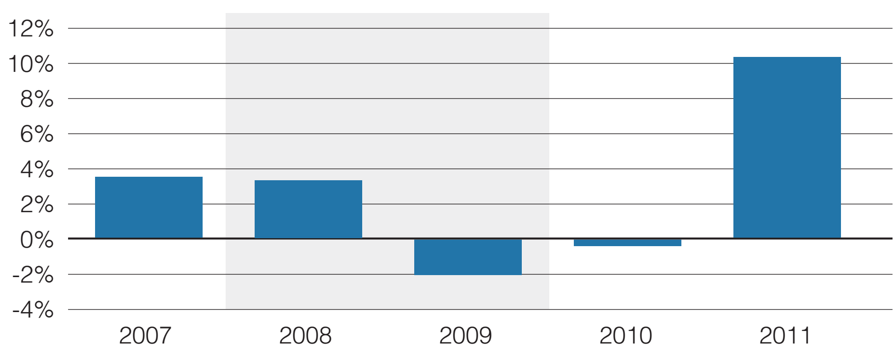
Revenue from Cleveland's income tax, collected from those who live or work in the city, also fell between 2007 and 2010. Nonresident workers contributed as much as 85 percent of the city's income tax receipts, but as the recession's impacts broadened, income tax revenue fell $31 million in 2009. Nontax revenue, primarily investment earnings, and property taxes also declined considerably between 2007 and 2010.[4]

Revenue losses led to a major reserve drawdown and, eventually, deep spending cuts

Between 2007 and 2010, overall expenditures fell 2 percent. Cuts in public safety ($16 million) and public works and transportation ($10 million) were the largest.[5] Tapping $27 million in 2009 to offset income tax declines erased the city's reserves. (See Figure 2.) In addition, city officials froze hiring to avoid layoffs.[6] But a year later, furloughs and employee concessions were required, and with continued shortfalls and no reserves, policymakers transferred money from other funds to plug holes. Spending cuts persisted into 2011 even as overall revenue increased slightly, primarily because of a modest rebound in income tax receipts.

FIGURE 2

Cleveland Reserve Funds as a Percent of Total General Fund Revenue, 2007-11



Note: Reserve funds are represented by the unreserved general fund balance as a percent of total general fund revenues. Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research.

Source: Pew calculations from Cleveland's Comprehensive Annual Financial Reports for fiscal 2007-11.

Managing the future: Cleveland set money aside for future bills, but challenges remain

Demand for services, investment decisions, and revenue performance driven by economic activity and demographic changes will shape Cleveland's fiscal future. Long-term factors of financial health, which can be analyzed using the data available, are pensions and retiree health care obligations and reserve levels.

As a result of the continued belt-tightening, Cleveland was able to restore its reserves to 10 percent of general fund revenue by the end of 2011—double the city's mandated 5 percent benchmark.[7]

Cleveland set aside assets for retiree health care, covering 34 percent of its $966 million in liabilities in 2010, higher than in many cities studied. However, the city's pension plans had 75 percent of their liabilities funded in 2010, a drop from three years earlier due, in part, to the city not paying its full recommended annual pension contributions. These unfunded obligations pose a challenge for the city's future.[8]

See Pew's 30-city interactive at pewstates.org/City-Fiscal-Conditions-Interactive for complete data.

Endnotes

1 See the full study methodology at pewstates.org/City-Fiscal-Methodology for a detailed explanation of the terms used in this profile and view the underlying data at pewstates.org/City-Fiscal-Conditions-Interactive.

2 City of Cleveland, *Comprehensive Annual Financial Report, for the Fiscal Year Ended December 31, 2007* (2007), 39, http://webapp.cleveland-oh.gov/aspnet/docs/get.aspx?id=169&file=2007CAFR.pdf; and City of Cleveland, *Comprehensive Annual Financial Report, for the Fiscal Year Ended December 31, 2008* (2008), 39, http://webapp.cleveland-oh.gov/aspnet/docs/get.aspx?id=198&file=2008CAFR.pdf.

3 City of Cleveland, *Comprehensive Annual Financial Report, for the Fiscal Year Ended December 31, 2007*, 39; and City of Cleveland, *Comprehensive Annual Financial Report, for the Fiscal Year Ended December 31, 2008*, 39; "State Local Government Funds and Other Shared Revenues include taxes levied and collected by the State of Ohio or counties and partially redistributed to the City and other political subdivisions." City of Cleveland, *Comprehensive Annual Financial Report, for the Fiscal Year Ended December 31, 2007*, 39; and City of Cleveland, *Comprehensive Annual Financial Report, for the Fiscal Year Ended December 31, 2008*, 39.

4 Moody's Investors Service, "Moody's Assigns A1 Rating and Stable Outlook to City of Cleveland's (OH) $50.6 Million Various Purpose and Refunding GO Bonds, Series 2012," new issue (2012), https://www.moodys.com/research/MOODYS-ASSIGNS-A1-RATING-AND-STABLE-OUTLOOK-TO-CITY-OF--PR_244324.

5 Debt service payments increased by $16 million during this period, much of it interest, offsetting some of the other spending cuts.

6 Moody's Investors Service, "Moody's Assigns A1 Rating and Stable Outlook to City of Cleveland's (OH) $50.6 Million Various Purpose and Refunding GO Bonds, Series 2012;" and Cleveland Mayor Frank G. Jackson's Fourth Annual State of the City Address (2009), http://www.city.cleveland.oh.us/clnd_images/PDF/Mayor/StateoftheCity2009.pdf.

7 *2012 Budget Book, City of Cleveland*, 27, http://webapp.cleveland-oh.gov/aspnet/docs/get.aspx?id=988&file=2012Budget.pdf; and Moody's Investors Service, "Moody's Assigns A1 Rating and Stable Outlook to City of Cleveland's (OH) $50.6 Million Various Purpose and Refunding GO Bonds, Series 2012."

8 For more information on and analysis of the state of retirement funding in the 30 cities, see The Pew Charitable Trusts, American cities project, *Cities Squeezed by Pension and Retiree Health Care Shortfalls* (March 2013), http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_city_pensions_brief.pdf.

This profile captures key financial trends before, during, and after the Great Recession for Dallas, one of 30 cities examined by The Pew Charitable Trusts' American cities project. These profiles provide baselines for understanding the fiscal conditions of our cities and for ongoing research, analysis, and policy guidance.

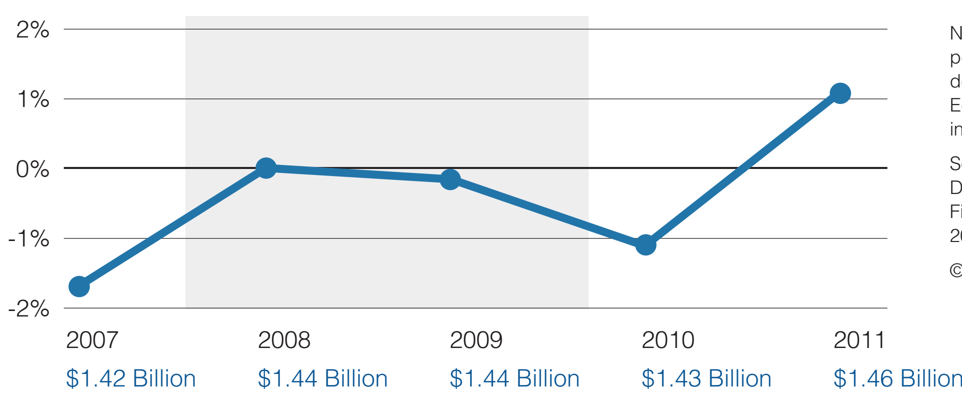
Dallas

Dallas' revenue declined modestly, but postrecession spending cuts enabled the city to restore its reserves

Dallas' revenue bounced back from the Great Recession in 2011 to surpass the previous peak, but financial challenges remain. (See Figure 1.) The city's total revenue declined slightly during the downturn, with just a 1 percent difference between the 2008 peak and the low point two years later. Intergovernmental aid was the largest factor in the growth between the low point in 2010 and 2011. Even as revenue rebounded, Dallas cut operating spending in 2011 to its lowest point since 2006, allowing the city to replenish its reserves, which it had tapped during the downturn. Still, declining pension funding and unfunded retiree health care obligations are causes for long-term concern.[1]

FIGURE 1

Dallas Governmental Revenue, Percent Change From Pre-downturn Peak, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

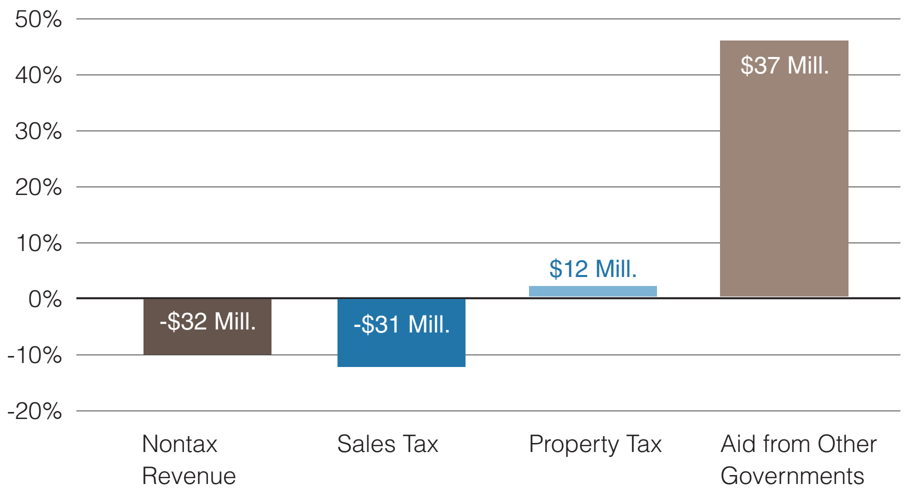
Source: Pew calculations from Dallas' Comprehensive Annual Financial Reports for fiscal 2007-11.

Early losses in sales taxes and investment income forced Dallas to tap its reserves

Receipts from Dallas' local 1 percent sales tax dropped $31 million between 2008 and 2010, after adjusting for inflation, and nontax revenue, primarily investment income, declined $32 million, losses the city attributed to declining interest rates and smaller initial investments.[2, 3] Those losses were partially offset by growth in property tax collections as well as intergovernmental aid during a period that included an influx of funds from the American Recovery and Reinvestment Act. (See Figure 2.)

FIGURE 2

Key Drivers of Change in Dallas' Revenue, 2008-10



Source: Pew calculations from Dallas' Comprehensive Annual Financial Reports for fiscal 2007-11.

Between 2008 and 2010, Dallas drew down 31 percent of its reserves to cover the revenue decline and a $56 million increase in operational spending, primarily higher debt service expenditures, as well as outlays for general government and public safety. The debt service payments grew as the city issued $440 million in bonds, partially for water and wastewater facilities, in 2008.[4]

Postrecession growth in intergovernmental aid drove the revenue rebound

Intergovernmental aid continued to grow in 2011 and was the largest category of overall revenue growth that year. Sales taxes rebounded, and nontax revenue increased because of contributions and gifts to support projects such as parks.[5]

Even as revenue grew, spending dropped by $93 million in 2011 to the lowest level since 2006. Savings from lower debt service payments driven by an absence of new bond issuances and increased bond refinancing accounted for half of the spending reduction. Another $31 million came out of the city's public safety budget, which still accounted for 44 percent of all operating expenditures in 2011.

Managing the future: Reserves were replenished, but retiree benefits pose a long-term challenge

Spending commitments, demand for services, and revenue performance driven by economic activity and demographic changes will shape Dallas' fiscal future. Long-term factors of financial health, which can be analyzed using the data available, are pensions and retiree health care obligations and reserve levels.

The combination of revenue growth and spending cuts allowed Dallas to restore its reserve balance to $104 million, positioning the city to handle future revenue shortages. But challenges remain.

The city had not set aside any assets for retiree health care as of 2010.[6] Dallas' pension plan had assets to cover 85 percent of obligations in 2010, although this was down from nearly full funding in 2007 because of increasing liabilities. In an effort to shore up its long-term obligations, the city's police and fire pension plan changed its coverage for new hires after March 1, 2011, reducing benefits by as much as 30 percent.[7]

See Pew's 30-city interactive at pewstates.org/City-Fiscal-Conditions-Interactive for complete data.

Endnotes

1 See the full study methodology at pewstates.org/City-Fiscal-Methodology for a detailed explanation of the terms used in this profile and view the underlying data at pewstates.org/City-Fiscal-Conditions-Interactive.

2 State of Texas, Office of the Comptroller of Public Accounts, "Local Sales and Use Tax," http://www.window.state.tx.us/taxinfo/local/city.html.

3 City of Dallas, *Comprehensive Annual Financial Report, for Fiscal Year Ended September 30, 2010* (2010), 7, http://www.dallascityhall.com/financial_services/pdf/CAFR_FY2010.pdf.

4 City of Dallas, *Comprehensive Annual Financial Report, for Fiscal Year Ended September 30, 2008* (2008), 10, http://www.dallascityhall.com/financial_services/pdf/CAFR_FY2008.pdf; City of Dallas, *Comprehensive Annual Financial Report, for Fiscal Year Ended September 30, 2011* (2011), 71, http://www.dallascityhall.com/financial_services/pdf/CAFR_FY2011.pdf.

5 City of Dallas, *Comprehensive Annual Financial Report, for Fiscal Year Ended September 30, 2011*, 106 and 138–39.

6 For more information on and analysis of the state of retirement funding in the 30 cities, see The Pew Charitable Trusts, American cities project, *Cities Squeezed by Pension and Retiree Health Care Shortfalls* (March 2013), http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_city_pensions_brief.pdf.

7 Gary Jacobson, "What Changes Mean for Dallas Police, Fire Employees," *Dallas Morning News* (July 28, 2012), http://www.dallasnews.com/business/headlines/20120728-what-changes-mean-for-dallas-police-fire-employees.ece.

This profile captures key financial trends before, during, and after the Great Recession for Denver, one of 30 cities examined by The Pew Charitable Trusts' American cities project. These profiles provide baselines for understanding the fiscal conditions of our cities and for ongoing research, analysis, and policy guidance.

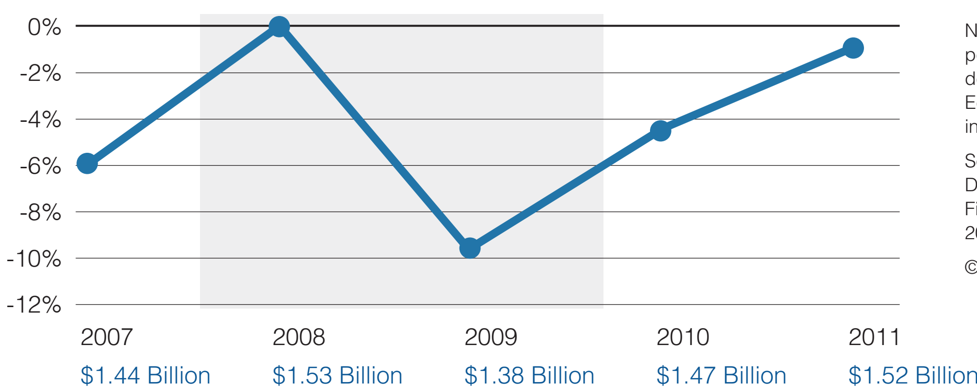
Denver

Denver had some short-term pain from the recession but was in a stronger fiscal position by 2011

Denver's revenue had almost returned to its pre-downturn peak by 2011 thanks to a significant rebound in the two years after the end of the Great Recession, but some concerns remained. (See Figure 1.) Every major revenue category grew between the 2009 low point and 2011, led by sales tax collections. At the same time, Denver cut its operating spending, allowing the city to rebuild its reserves. Denver took a proactive approach to its long-term obligations, positioning itself well for the future.[1]

FIGURE 1

Denver Governmental Revenue, Percent Change From Pre-downturn Peak, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

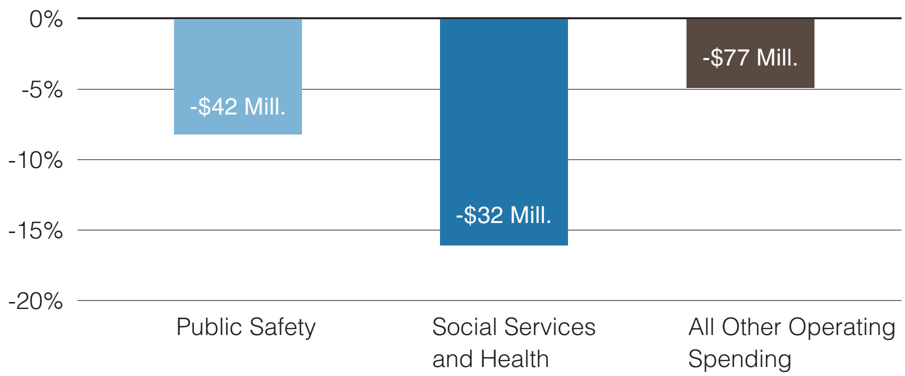
Source: Pew calculations from Denver's Comprehensive Annual Financial Reports for fiscal 2007-11.

Early losses in sales tax and intergovernmental aid forced reserve drawdowns and spending cuts

Denver felt the effects of the national downturn most acutely in 2009, as total revenue dropped $150 million (10 percent) from the previous year, after adjusting for inflation. Collections from the city's largest revenue source, a local 3.62 percent sales tax, declined $51 million between the 2008 revenue peak and the low point one year later.[2] Intergovernmental aid dropped $43 million at the same time, despite passage of the American Recovery and Reinvestment Act early in 2009.

FIGURE 2

Change in Key Denver Operating Expenditures, 2008-11



Note: Amounts are in 2011 dollars.

Source: Pew calculations from Denver's Comprehensive Annual Financial Reports for fiscal 2007-11.

The large shortfall in 2009 prompted a drawdown of $60 million from the city's reserve fund that year. But, that was not enough to cover gaps. City leaders were forced to reduce spending, including a $52 million cut to public safety and a $12 million reduction in funds for social services and health, a core function of the joint city-county government. (See Figure 2.) Denver implemented a hiring freeze halfway through 2008, and in 2009, then-Mayor John Hickenlooper created a voluntary early retirement program for city employees.[3]

Rebounding revenue and continued spending cuts helped the city bolster its reserves

Personal consumption was a key driver in Denver's postrecession rebound, as reflected by sales tax growth of $46 million between 2009 and 2011. Though sales taxes led the way, every revenue category increased in the two years following the end of the Great Recession. The category, "other non-tax revenues," which includes investment income, increased $27 million, charges and fees grew $21 million, and property tax collections rose $20 million.

Despite the revenue gains, Denver continued targeted spending cuts between 2009 and 2011. Parks, recreation, and cultural facilities ($32 million) and social services and health ($21 million) were reduced the most.[4] Combined, the revenue gains and spending cuts allowed the city to replenish its reserves by $52 million between 2009 and 2011.

Managing the future: Proactive fiscal management positioned Denver well for the future

Spending commitments, demand for services, and revenue performance are among key factors that will affect Denver's future fiscal health. Two long-term obligations which can be analyzed using the data available are pensions and retiree health care and other benefits.

Denver took action to fund its future retiree health care liabilities. With assets of $88 million in 2010, funding slightly less than half of its long-term retiree health commitments, the city was one of only four examined with funding levels above 40 percent.[5]

In 2010, the city's pension funding level was down to 86 percent from 97 percent three years earlier—largely because of market declines. But Denver continued to make its recommended contributions, and in 2007, 2008, and 2010 it exceeded the annual recommended amounts.

See Pew's 30-city interactive at pewstates.org/City-Fiscal-Conditions-Interactive for complete data.

Endnotes

1 See the full study methodology at pewstates.org/City-Fiscal-Methodology for a detailed explanation of the terms used in this profile and view the underlying data at pewstates.org/City-Fiscal-Conditions-Interactive.

2 City of Denver, *Comprehensive Annual Financial Report, Year Ended December 31, 2011* (2011), 155, http://www.denvergov.org/LinkClick.aspx?fileticket=leez2_8rNQY%3d&tabid=442875&mid=507438

3 Christopher N. Osher, "960 Eligible for Early-Retirement Offer; Denver's City Council Must OK the Budget-Cut Plan; Police Officers Are Voting on Raise Delays," *Denver Post* (Sept. 1, 2009), http://www.denverpost.com/news/ci_13242373; and Lucy McFadden, "Hick: Gird for Cuts, Denver," Colorado Statesman (July 17, 2009), http://www.coloradostatesman.com/content/991152-hick-gird-cuts-denver.

4 Expenditures increased somewhat in 2012. City of Denver, *Comprehensive Annual Financial Report, Year Ended December 31, 2012* (2012), 154, http://www.denvergov.org/Portals/344/documents/CAFR/CAFR_2012.pdf

5 For more information on and analysis of the state of retirement funding in the 30 cities, see The Pew Charitable Trusts, American cities project, *Cities Squeezed by Pension and Retiree Health Care Shortfalls* (March 2013), http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_city_pensions_brief.pdf.

This profile captures key financial trends before, during, and after the Great Recession for Detroit, one of 30 cities examined by The Pew Charitable Trusts' American cities project. These profiles provide baselines for understanding the fiscal conditions of our cities and for ongoing research, analysis, and policy guidance.

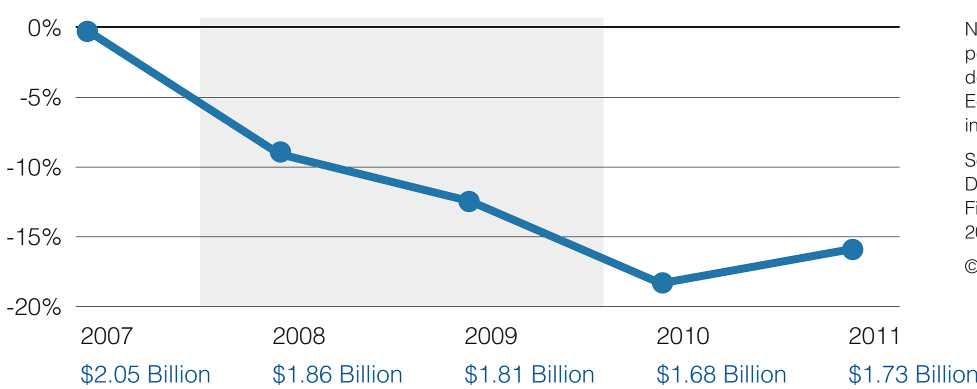
Detroit

The Great Recession accelerated Detroit's downward trajectory

As of 2011, Detroit's revenue was far below its prior peak, and the city faces continuing financial challenges, including a bankruptcy process that may be protracted and contentious. Like Michigan as a whole, Detroit was already in a prolonged economic slump before the Great Recession. The downturn compounded an already weak economy marked by a faltering automotive industry and ongoing population losses. Revenue fell $374 million from 2007 to 2010. (See Figure 1.) Significant spending cuts, workforce reductions, and privatization have not been enough to address the city's fiscal woes and retiree liabilities.[1]

FIGURE 1

Detroit Governmental Revenue, Percent Change From Pre-downturn Peak, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

Source: Pew calculations from Detroit's Comprehensive Annual Financial Reports for fiscal 2007-11.

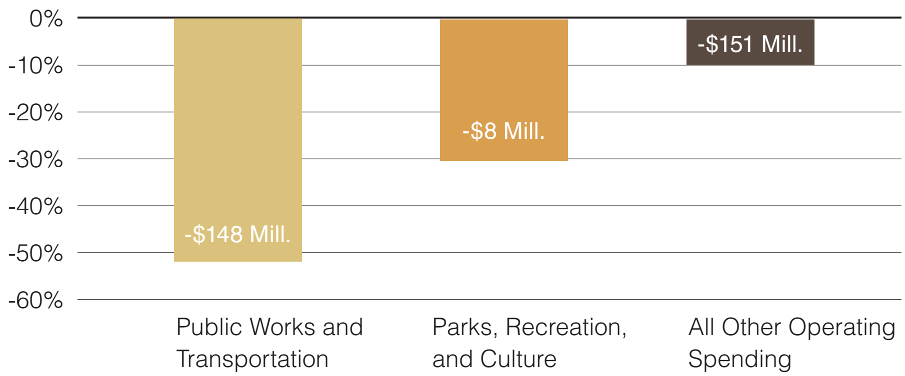
A modest increase in intergovernmental aid wasn't enough to offset spiraling revenue declines

Revenue fell 18 percent between the measurement period peak in 2007 and the bottom in 2010, after adjusting for inflation. Declining income and property taxes contributed to the city's overall revenue decline, along with drops in charges and fees.[2] Nontax revenue, however—including investment earnings, revenue from use of assets, and premiums for the city's self-insurance Risk Management Fund—lost the most of any major revenue category, falling $125 million between 2007 and 2010.[3] Increases in intergovernmental aid barely helped offset sharp revenue declines—even though the American Recovery and Reinvestment Act injected $208 million into the city's economy from 2009 through 2010.[4]

To some degree, the population decline not only affected revenue but also reduced demand for services, and budget downsizing was to be expected. Overall operating expenditures declined 14 percent, or $270 million, between 2007 and 2010. City officials drastically reduced spending on public works and transportation by eliminating services to sparsely populated areas, including streetlights, buses, and trash collection, in an effort to direct resources to remaining residents elsewhere.[5] (See Figure 2.) After further cuts threatened the city's 17 recreation centers, area companies set up a charitable trust to pick up the tab.[6]

FIGURE 2

Percent Change in Key Detroit Operating Expenditures, 2007-11



Note: Amounts are in 2011 dollars.

Source: Pew calculations from Detroit's Comprehensive Annual Financial Reports for fiscal 2007-11.

Despite the spending cuts, Detroit still had trouble balancing its budget and resorted to a number of short-term fixes, such as the sale of city-held assets and privatization of services.[7] Although these moves helped Detroit temporarily, they proved insufficient to address broader imbalances in the city's finances.

Managing the future: Borrowing and persistent deficits have propelled Detroit's road to default

Demand for services, investment decisions, and revenue performance will be key factors in Detroit's financial well-being. Several long-term factors of financial health, which can be analyzed using the data available, are pensions and retiree health care obligations and reserve levels.

Having tapped its reserves during the 2001 recession and without rebuilding its cushion, Detroit had no options when the Great Recession hit. So the city ran a deficit that had to be filled with money from other reserve funds. In 2009, the shortfall prompted Standard & Poor's to downgrade Detroit's credit rating from BBB to BB, which is typically considered noninvestment grade.[8] The rating was downgraded further in subsequent years.[9]

Detroit's pension system was 92 percent funded in 2010, but that was largely because it borrowed $1.5 billion in 2005 to shore up its pension funding. The city now must make payments on that bond as well as confront lower-than-expected investment returns and other fiscal pressures.[10] As a result, the city has again fallen behind on growing annual pension contributions.[11] In addition, Detroit had set aside less than 1 percent of the money needed to cover its $5 billion retiree health care commitment.[12] Recently, the city implemented reduced pensions, temporary pension freezes, and higher out-of-pocket health care payments in order to reduce the cost of retiree benefit commitments.[13]

The city's growing debt is now estimated to exceed $18.5 billion.[14] In March 2013, Michigan Gov. Rick Snyder stepped in, appointing an emergency financial manager who in turn declared the city insolvent and raised the potential of bankruptcy just two months later.[15] In June 2013, in accordance with the financial management plan, Detroit did not pay a $34 million debt payment and instead used that money for operating expenses.[16] The city declared bankruptcy in July 2013, marking the largest municipal bankruptcy in the nation's history. Depending on how the bankruptcy process plays out, it could allow Detroit to discharge a meaningful amount of its pension, retiree health care, and other long-term debt.

See Pew's 30-city interactive at pewstates.org/City-Fiscal-Conditions-Interactive for complete data.

Endnotes

1 See the full study methodology at pewstates.org/City-Fiscal-Methodology for a detailed explanation of the terms used in this profile and view the underlying data at pewstates.org/City-Fiscal-Conditions-Interactive.

2 Losses in income tax revenue were driven largely by the recession's impact, particularly on auto workers. City of Detroit, *Comprehensive Annual Financial Report, for the Fiscal Year Ended June 30, 2010* (2010), 25, https://www.detroitmi.gov/Portals/0/docs/finance/CAFR/2010%20CAFR%20draft%20122010%20.pdf. Property taxes rebounded sharply the following year, gaining $47 million between 2010 and 2011. Decline in charges was led by a reduction of personal services revenue, primarily central staff services. City of Detroit, *Comprehensive Annual Financial Report, for the Fiscal Year Ended June 30, 2010*, 9.

3 City of Detroit, *Comprehensive Annual Financial Report, for the Fiscal Year Ended June 30, 2010*, 25; City of Detroit, *Comprehensive Annual Financial Report, for the Fiscal Year Ended June 30, 2012* (2012), 28, http://www.detroitmi.gov/Portals/0/docs/finance/CAFR/Final%202012%20Detroit%20Financial%20Statements.pdf; and "The Risk Management Fund is a self-insurance fund established by Section 18-8 of the City Code in 1995 to cover liability to third parties for any loss or damage arising out of negligence, tort, contract or otherwise accruing, payable by the City from and after July 1, 1994. The City may be liable under Workers' Compensation or Disability Benefits Law, or under any similar laws, or for damage to property or personal injury," 46, http://www.detroitmi.gov/LinkClick.aspx?fileticket=IC1dyuMzYuU%3D&tabid=3716&mid=5554.

4 City of Detroit, *Comprehensive Annual Financial Report, for the Fiscal Year Ended June 30, 2010*, 11.

5 Michael Muskal, "Michigan Governor Declares Financial Emergency in Detroit," *Los Angeles Times* (March 1, 2013), http://articles.latimes.com/2013/mar/01/nation/la-na-nn-michigan-declares-financial-emergency-in-detroit-20130301.

6 Cecil Angel, "Private Money to Fund Detroit Recreational Centers, Keeping 17 Open," *Detroit Free Press* (Aug. 23, 2012), http://www.freep.com/article/20120823/NEWS01/308230188.

7 City of Detroit, *Comprehensive Annual Financial Report, for the Fiscal Year Ended June 30, 2009*, 19, https://www.detroitmi.gov/Portals/0/docs/finance/CAFR/Detroit%20CAFR%20FINAL%206-5-10.pdf.

8 In 2009, the general fund shortfall reached 26 percent of revenue. Reuters, "S&P Downgrades Detroit Bonds to Junk Status" (Jan. 7, 2009), http://www.reuters.com/article/2009/01/07/us-detroit-sp-idUSTRE50608720090107.

9 *Detroit News*, "S&P Lowers Detroit's Bond Rating" (Oct. 2, 2013), http://www.detroitnews.com/article/20131002/METRO01/310020125.

10 Citizens Research Council of Michigan, "Legacy Costs and Indebtedness of the City of Detroit" (December 2011), 1, http://www.crcmich.org/PUBLICAT/2010s/2011/rpt373.pdf.

11 Moody's Investors Service, "Rating Update: Moody's Downgrades Detroit (MI)'s General Obligation Unlimited Tax and Certificate of Participation Debt to B2 and GOLT Debt to B3," rating update (2012), 2 and 4.

12 For more information and analysis on the state of retirement funding in the 30 cities, see The Pew Charitable Trusts, American cities project issue brief, *Cities Squeezed by Pension and Retiree Health Care Shortfalls* (March 2013), http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_city_pensions_brief.pdf.

13 Matt Helms and Suzette Hackney, "City Unions Object, but Cuts Look Like Done Deal," *Detroit Free Press*, sec. Front Page (July 17, 2012), http://www.freep.com/article/20120717/NEWS05/207170412/Detroit-unions-object-but-city-pay-cuts-look-like-done-deal.

14 Bernie Woodall and Steve Neavling, "Detroit Defaults on Some Debt to Avoid Bankruptcy Filing," Reuters (June 14, 2013), http://www.reuters.com/article/2013/06/14/us-usa-detroit-creditors-idUSBRE95D0OS20130614.

15 Steve Neavling, "Michigan Governor Names Bankruptcy Attorney to Run Detroit," Reuters (March 14, 2013), http://www.reuters.com/article/2013/03/14/usa-detroit-emergency-idUSL1N0C69N020130314; and Nick Carey and Steve Neavling, "Detroit Emergency Manager Says City 'Clearly Insolvent,' " Reuters (May 13, 2013), http://www.reuters.com/article/2013/05/13/us-usa-detroit-emergencymanager-idUSBRE94C0YD20130513.

16 The financial manager's plan calls for reinvesting $1.25 billion over the next decade to boost crucial services such as police and fire, increase blight removal, and transform the operations of an antiquated, failing city government. Matt Helms, Joe Guillen, and Alisa Priddle, "Orr: Detroit to Halt Debt Payments, Reinvest $1.25 Billion in City," *Detroit Free Press* (June 14, 2013), http://www.freep.com/article/20130614/NEWS01/306140083/Orr-Detroit-halt-debt-payments-reinvest-1-25-billion-city.

This profile captures key financial trends before, during, and after the Great Recession for the District of Columbia, one of 30 cities examined by The Pew Charitable Trusts' American cities project. These profiles provide baselines for understanding the fiscal conditions of our cities and for ongoing research, analysis, and policy guidance.

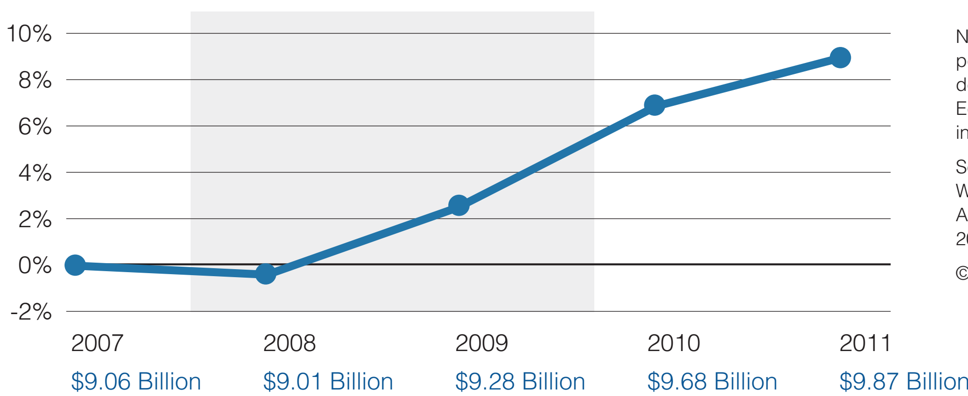
District of Columbia

Aid from the federal government helped the District of Columbia avoid some fiscal pain from the Great Recession

Revenue mostly grew during and after the recession, but other fiscal issues raise concerns. The city's special relationship with the federal government brought in an additional $1.1 billion in intergovernmental aid between the 2008 revenue low point and 2011, allowing total revenue to bounce back earlier and stronger than did many other large U.S. cities. (See Figure 1.) Federal aid declined dramatically in 2012, however, and budget sequestration, which started in March 2013—resulting in federal spending cuts—is cause for concern.[1] Operating spending also rose between 2008 and 2011, with increases to social services and health, education, and public safety, forcing the city to tap some reserves.[2]

FIGURE 1

Washington Governmental Revenue, Percent Change From Pre-downturn Peak, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

Source: Pew calculations from Washington's Comprehensive Annual Financial Reports for fiscal 2007-11.

Other revenue streams suffered through the downturn and beyond

Like other cities, the district received funding related to the American Recovery and Reinvestment Act for capital and operating expenditures. But the district is unique in that it simultaneously performs the functions of a city, a county, a school district, and a state, and therefore receives grant funding that in other cities is distributed to a wider array of governmental entities.

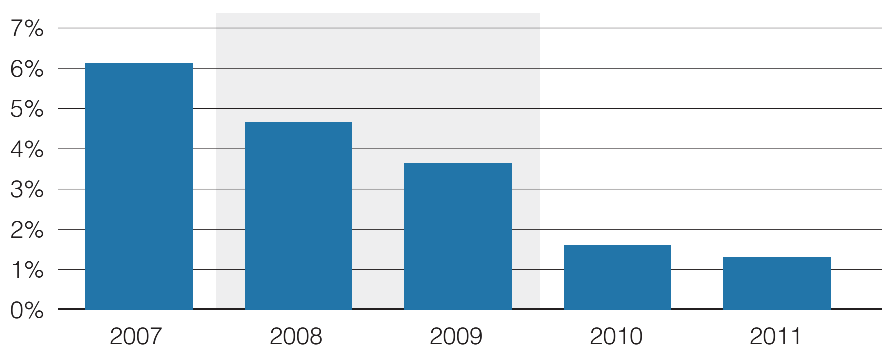
The revenue rebound rested on the strength of only two sources: intergovernmental aid and charges and fees. Specifically, charges for services increased $66 million between 2008 and 2011. Despite rate changes, property tax collections—the district's largest own-source revenue—declined $29 million, after adjusting for inflation.[3] Other local-source revenue streams also fell during this period, including income taxes (down $171 million), sales taxes (down $25 million), and other taxes (down $63 million).

Spending grew overall, but some categories saw significant cuts

Between 2008 and 2011, the district's operating spending increased $409 million, forcing a drawdown of two-thirds of the city's reserves.[4] (See Figure 2.) The city's three largest expenditure categories—social services and health, education, and public safety—grew $491 million, $159 million, and $93 million, respectively. Social services and health expenditures increased due to spending tied to federal and private resources, and the growth in education was due to higher enrollment, more special-needs students, additional Head Start funding, and implementation of a new early-childhood education program.[5]

FIGURE 2

Washington Reserve Funds as a Percent of Total General Fund Revenue, 2007-11



Note: Reserve funds are represented by the unreserved general fund balance as a percent of total general fund revenues. Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research.

Source: Pew calculations from Washington's Comprehensive Annual Financial Reports for fiscal 2007-11.

The spending categories that were more dependent on local revenue, however, tended to decline between 2008 and 2011. These included public works, which reduced services such as hazardous waste collection,[6] and housing and economic development, where broad cost-saving measures included reductions in the Housing Production Trust Fund Subsidy, city planning, and employment services programs.[7]

Managing the future: Federal responsibility for a portion of the district's pension obligations strengthened the city's long-term fiscal position

Demand for services, investment decisions, and revenue performance driven by economic activity and demographic changes will shape the district's fiscal future. Two long-term obligations which can be analyzed using the data available are pensions and retiree health care and other benefits.

The district's pension situation improved dramatically when Congress passed the National Capital Revitalization and Self-Government Improvement Act of 1997, in which the federal government assumed responsibility for the majority of the district's unfunded pension liability for teachers, police officers, firefighters, and judges up to 1997. Obligations accrued since then are the city's responsibility, and funding levels exceeded 100 percent of pension liabilities between 2007 and 2010.[8]

The district also had enough assets to cover more than half of its retiree health care liabilities, one of just three cities examined with at least 50 percent funding in 2010.[9]

See Pew's 30-city interactive at pewstates.org/City-Fiscal-Conditions-Interactive for complete data.

Endnotes

1 Federal contributions and operating grants declined to $2.5 billion in 2012, which, after adjusting for inflation, would be the district's lowest point in that revenue stream since at least 2008. District of Columbia, *Comprehensive Annual Financial Report, Year Ended September 30, 2012* (2012), 49.

2 See the full study methodology at http://www.pewstates.org/City-Fiscal-Methodology for a detailed explanation of the terms used in this profile and view the underlying data at pewstates.org/City-Fiscal-Conditions-Interactive.

3 District of Columbia, *Comprehensive Annual Financial Report, Year Ended September 30, 2011*, 170.

4 While significant, these losses did not touch the city's congressionally mandated cash reserve funds. The city is required to maintain 2 percent and 4 percent of operating expenditures in emergency and contingency reserves, respectively. District of Columbia, *Fourth Quarter, FY 2012, Status Report on the Emergency and Contingency Cash Reserve Funds as of September 30, 2012* (2013), 1, http://cfo.dc.gov/sites/default/files/dc/sites/ocfo/publication/attachments/FY%202012%204th%20Quarter,%20Emergency%20and%20Contingency%20Cash%20Reserve%20Fund%20as%20of%20September%2030,%202012.pdf.

5 District of Columbia, *Comprehensive Annual Financial Report, Year Ended September 30, 2011*, 31.

6 Ibid.

7 District of Columbia, *Comprehensive Annual Financial Report, Year Ended September 30, 2010*, 31.

8 The funding level for the district represents only liabilities accrued since 1997 in defined benefit pension plans for firefighters, police, and teachers. The federal government in 1997 took over financial responsibility for benefits accrued by those workers up to then, as well as retirement benefits for judges, relieving the city of $4.9 billion in unfunded liabilities. The city also contributes to a defined benefit plan (for 2,700 general municipal workers hired before 1987) that is managed by the federal Civil Service Retirement System, but an estimate of the city's share of those liabilities could not be obtained. This study does not include the costs of pension benefits for general municipal employees hired since October 1987 because the city deposits a defined contribution into an individual retirement account for each employee rather than maintaining funds for all employees in a traditional centralized pension system. District of Columbia. *Comprehensive Annual Financial Report, Year Ended September 30, 2011*, 111–117.

9 For more information and analysis on the state of retirement funding in the 30 cities, see The Pew Charitable Trusts, American cities project, *Cities Squeezed by Pension and Retiree Health Care Shortfalls*, issue brief (March 2013), http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_city_pensions_brief.pdf.

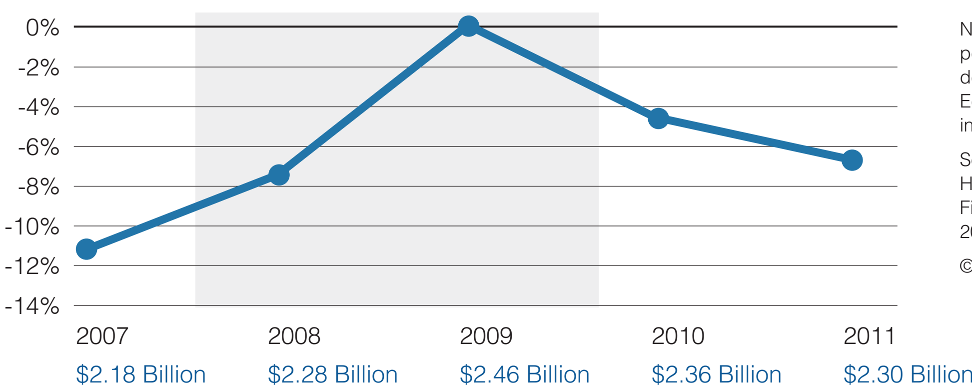
Houston

Revenue losses forced spending cuts and ate into Houston's reserves

Houston's revenue was still dropping as of 2011, and the city faced continuing financial challenges two years after the end of the Great Recession. (See Figure 1.) Nearly every revenue category declined from the high in 2009, led by sharp drops in intergovernmental aid and property tax collections. The losses led to dramatic spending cuts and drawdowns from reserves. Underfunded long-term obligations also posed near- and long-term hurdles for Houston's financial future and prompted discussion of pension reform.[1]

FIGURE 1

Houston Governmental Revenue, Percent Change From Pre-downturn Peak, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

Source: Pew calculations from Houston's Comprehensive Annual Financial Reports for fiscal 2007-11.

Stable housing values drove revenue despite property tax limits

Through 2009, a steady local housing market and growing assessments pushed up property tax revenue in Houston even as tax rates dropped slightly.[2] Stable housing values helped Houston weather the early years of the Great Recession, and property tax collections grew $128 million between 2007 and 2009.[3] Intergovernmental aid increased $107 million over the same period, with the last year coinciding with passage of the American Recovery and Reinvestment Act.

Houston used the influx of funds to increase its operating spending. The largest areas of growth were public safety, which rose $94 million, and public works and transportation, which increased $57 million.[4] In addition, Houston managed to set aside an additional $15 million in reserves by 2009. And the city would need it.

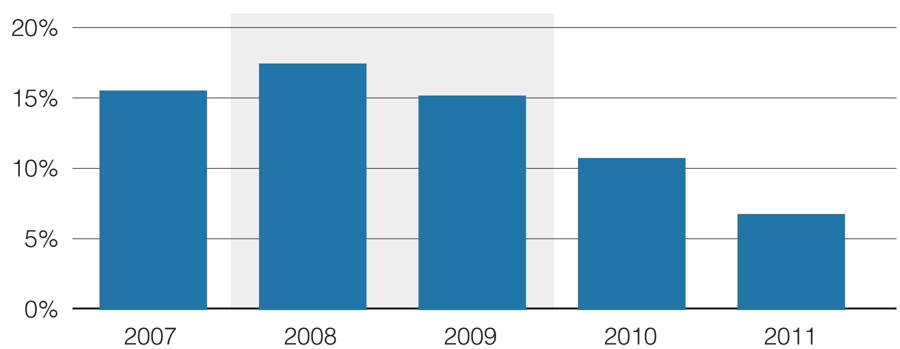
Steep losses in major revenue streams led to sharp spending cuts

In 2010 and 2011, the housing market downturn finally caught up with Houston, and property tax revenue declined, as did aid from other governments. Furthermore, sales tax revenue tumbled after oil price declines led to oil and gas industry employment cuts in 2010, which in turn led to losses in retail consumption.[5]

In response, Houston drew down on reserves, reducing them by more than half, to $128 million in 2011. (See Figure 2.) Even that was not enough to forestall large expenditure cuts. Public works spending was reduced 29 percent, from $412 million in 2009 to $291 million in 2011, while public safety was cut $20 million.

FIGURE 2

Houston Reserve Funds as a Percent of Total General Fund Revenue, 2007-11



Note: Reserve funds are represented by the unreserved general fund balance as a percent of total general fund revenues. Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research.

Source: Pew calculations from Houston's Comprehensive Annual Financial Reports for fiscal 2007-11.

Managing the future: Houston maintained its position in pension funding levels but is exploring changes

Spending commitments, demand for services, and revenue performance are among key factors that will affect Houston's future fiscal health. Two long-term obligations which can be analyzed using the data available are pensions and retiree health care and other benefits.

As in most large cities, long-term obligations pose a significant challenge for Houston's fiscal future.[6] In retiree health care, the city was one of 16 among those studied that had nothing set aside to cover its liabilities, which exceeded $3 billion as of 2010. Unlike most of the cities examined, however, Houston maintained a relatively stable pension funding level with assets covering about 80 percent of obligations each year from 2007 to 2010. In December 2012, Mayor Annise Parker suggested looking at measures to reduce pension costs, including changes to cost-of-living adjustments and a deferred option retirement program.[7]

See Pew's 30-city interactive at pewstates.org/City-Fiscal-Conditions-Interactive for complete data.

Endnotes

1 See the full study methodology at pewstates.org/City-Fiscal-Methodology for a detailed explanation of the terms used in this profile and view the underlying data at pewstates.org/City-Fiscal-Conditions-Interactive.

2 Rates dropped from $6.45 per $1,000 of valuation in 2007 to $6.39 in 2009. City of Houston, *Comprehensive Annual Financial Report, for the Fiscal Year Ended June 30, 2011* (2011), 221, http://www.houstontx.gov/controller/cafr/cafr2011printfriendly.pdf.

3 In 2004, Houston voters approved a ballot measure capping property tax growth. The initiative barred the city from raising the property tax more than the total of the consumer price index plus population growth, with an absolute cap of 4.5 percent. Had housing values fallen sharply, this limit might have constrained the city's revenue. *Carrol G. Robinson, Bruce R. Hotze, and Jeffrey N. Daily, Petitioners v. Annise D. Parker, Mayor, City of Houston, Houston City Council, et al., Respondents* (2009), Supreme Court of Texas, http://www.supreme.courts.state.tx.us/historical/2011/aug/080658.pdf.

4 In addition to the other spending increases, a one-time spike in debt service spending in 2009 occurred because bond debt was refinanced.

5 Houston's employment base is heavily dependent on the oil and gas industry, which includes three of the city's largest employers. City of Houston, *Comprehensive Annual Financial Report, for the Fiscal Year Ended June 30, 2011*, 228; Jane Merriman, "Oil to Rebound, Dip Below $30 Possible: Goldman," Reuters (Jan. 19, 2009), http://www.reuters.com/article/2009/01/19/us-goldman-oil-idUSTRE50I3PU20090119; and U.S. Energy Information Administration, "U.S. Crude Oil First Purchase Price" (2013), http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=pet&s=f000000__3&f=m.

6 For more information on and analysis of the state of retirement funding in the 30 cities, see The Pew Charitable Trusts, American cities project, *Cities Squeezed by Pension and Retiree Health Care Shortfalls* (March 2013), http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_city_pensions_brief.pdf.

7 Mike Morris, "City Council seeks options for lowering pension obligations," *Houston Chronicle* (Dec. 11, 2012), http://www.chron.com/default/article/City-Council-seeks-options-for-lowering-pension-4109858.php.

THE PEW CHARITABLE TRUSTS

This profile captures key financial trends before, during, and after the Great Recession for Kansas City, one of 30 cities examined by The Pew Charitable Trusts' American cities project. These profiles provide baselines for understanding the fiscal conditions of our cities and for ongoing research, analysis, and policy guidance.

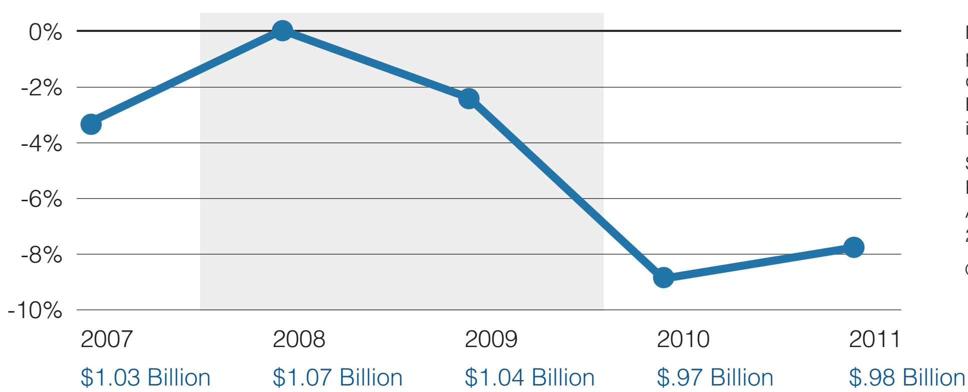
Kansas City, MO

Revenue bottomed out after the recession, and there has been only a slight rebound

In 2011, Kansas City's revenue remained far below its prior peak, and the city faced ongoing financial challenges two years after the end of the Great Recession. Kansas City had steep revenue losses, led by sales and income taxes and nontax revenue such as investment income and interest. Intergovernmental aid helped partially offset the declines, but overall revenue still fell 9 percent between the 2008 peak and the bottom in 2010. (See Figure 1.) In addition, Kansas City grappled with unfunded pensions and costly debt-service payments stemming from a less-than-successful downtown redevelopment effort.[1]

FIGURE 1

Kansas City Governmental Revenue, Percent Change From Pre-downturn Peak, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

Source: Pew calculations from Kansas City's Comprehensive Annual Financial Reports for fiscal 2007-11.

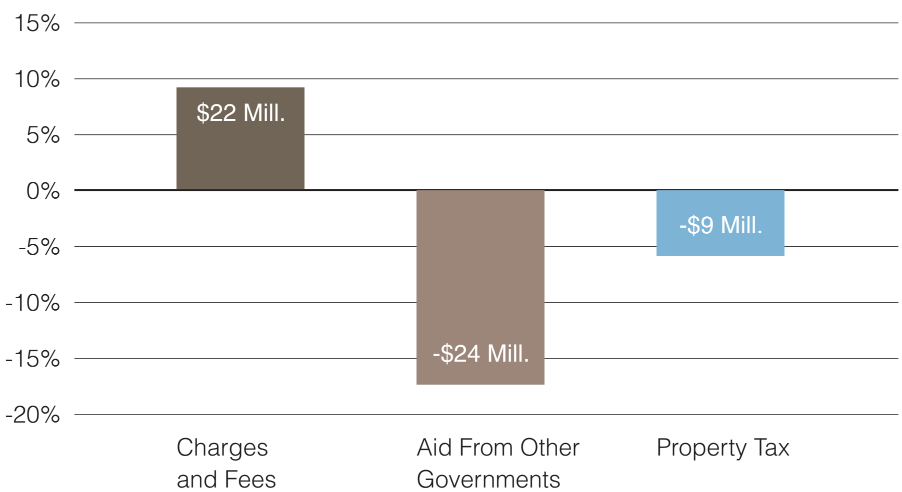
Declining revenue hit in many areas, with intergovernmental aid serving as a partial backstop

Kansas City hit its revenue low point in 2010. Nontax revenue—including, among other items, investment income and interest—fell $57 million from the peak in 2008, making it the largest single category of the city's revenue losses. Sales and income taxes together declined an additional $56 million during the same period. Although intergovernmental aid—which included American Recovery and Reinvestment Act funds—grew, it was not enough to offset losses elsewhere.[2] As a result, the city drew down reserves in order to maintain relatively flat operating spending between 2008 and 2010.[3]

Revenue rebounded somewhat in 2011 on the strength of growth in charges for services, but steep declines in intergovernmental aid and property tax receipts—two categories that had helped temper earlier revenue losses—created new financial woes.[4] (See Figure 2.) To address these shortfalls, Kansas City voters approved in 2011 the continuation for another five years of a 1 percent earnings tax on residents and nonresidents who work in the city.[5] This tax generates about $200 million annually and represents approximately one-fifth of the city's total revenue. Voters reconsider the referendum every five years, which adds uncertainty to the city's long-term fiscal outlook.[6]

FIGURE 2

Key Drivers of Change in Kansas City's Revenue, 2010-11



Source: Pew calculations from Kansas City's Comprehensive Annual Financial Reports for fiscal 2007-11.

Managing the future: The recession cut into planning for long-term obligations

Demand for services, investment decisions, and revenue performance driven by economic activity and demographic changes will shape Kansas City's fiscal future. Long-term factors of financial health, which can be analyzed using the data available, are pensions and retiree health care obligations and debt from investments.

One unexpected drag on city finances has been the middling results from plans to revitalize downtown Kansas City.[7] The Power and Light District development is now 85 percent occupied, but sales and property tax revenues have thus far fallen short of projections, contributing to fiscal challenges.[8] The city continues to put aside revenue in its budget to supplement its annual bond payments.

In 2010, Kansas City's pensions were 78 percent funded, down from 91 percent two years earlier.[9] In 2011, a city-convened task force recommended that workers contribute an additional 1 percent of their wages into pension plans. The review also called on the city to make downward adjustments in cost-of-living increases and benefit levels, but no action had been taken as of July 2013.[10]

See Pew's 30-city interactive at pewstates.org/City-Fiscal-Conditions-Interactive for complete data.

Endnotes

1 See the full study methodology at pewstates.org/City-Fiscal-Methodology for a detailed explanation of the terms used in this profile and view the underlying data at pewstates.org/City-Fiscal-Conditions-Interactive.

2 City of Kansas City, MO, *Comprehensive Annual Financial Report, for the Fiscal Year Ended April 30, 2011* (2011), B-13, v, http://www.kcmo.org/idc/groups/finance/documents/finance/ocs879231-100315.pdf. Through 2011, the city had been awarded a total of $92 million in federal stimulus funding.

3 The decrease was driven largely by a $39 million decline in other spending, a category that includes nondepartmental expenditures from the tax-increment financing special allocation fund and moneys sent to the Kansas City Area Transit Authority, a separate entity. These losses were offset somewhat by a $39 million increase in housing and economic development spending, the result in part of the creation of a housing department in 2009. General government spending fell $10 million during the same period, the result of overall expenditure cuts and wage and hiring freezes. City of Kansas City, MO, *Kansas City Adopted Budget 2009-10* (2009), 13 and 187, http://www.kcmo.org/CKCMO/Depts/Finance/Office%20of%20Management%20and%20Budget/Adoptedbudgetforfiscalyear2009-2010/index.htm; City of Kansas City, MO, *Comprehensive Annual Financial Report, for the Fiscal Year Ended April 30, 2011 and 2010* (2011), B-13, B-20, and C-5, http://www.kcmo.org/idc/groups/finance/documents/finance/ocs879231-100311.pdf.

4 Additional charges for services included increased trash collection, restaurant inspection, convention center use, and administrative fees. City of Kansas City, MO, *FY 2010-11 Submitted Budget* (Feb. 11, 2010), 7, http://www.kcmo.org/idc/groups/citymanager/documents/citymanagersoffice/budgetpresentation021110.pdf.

5 Steve Vockrodt, "Kansas City Voters Overwhelmingly Approve Keeping Earnings Tax," *Kansas City Business Journal* (April 5, 2011), http://www.bizjournals.com/kansascity/news/2011/04/05/kansas-city-voters-approve-earnings-tax.html.

6 Moody's Investors Service, "Moody's Assigns Aa2 Rating to the City of Kansas City's (MO) $212.7 Million GO Improvement and Refunding Bonds, Series 2012 and A1 Rating to $75.4 Million Special Obligation Bonds, Series 2012A-B; Outlook Remains Stable" (March 1, 2012), http://www.kcmo.org/idc/groups/finance/documents/finance/ocs879231-101414.pdf.

7 Eliot Brown, "Urban Center Is Budget Hole," *Wall Street Journal* (April 23, 2012), http://online.wsj.com/article/SB100014240527023043312045 77356471425094502.html.

8 Ibid.

9 For more information on and analysis of the state of retirement funding in the 30 cities, see The Pew Charitable Trusts, American cities project, *Cities Squeezed by Pension and Retiree Health Care Shortfalls* (March 2013), http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_city_pensions_brief.pdf.

10 *Kansas City Star*, "Make Pension Reform Happen at City Hall" (Nov. 25, 2011), http://voices.kansascity.com/entries/make-pension-reform-happen-city-hall; and Lynn Horsley, "Proposed KC Budget Would Spend More on Streets and Youths," *Kansas City Star* (Jan. 16, 2013), http://www.kansascity.com/2013/01/16/4012880/proposed-kc-budget-would-spend.html.

This profile captures key financial trends before, during, and after the Great Recession for Las Vegas, one of 30 cities examined by The Pew Charitable Trusts' American cities project. These profiles provide baselines for understanding the fiscal conditions of our cities and for ongoing research, analysis, and policy guidance.

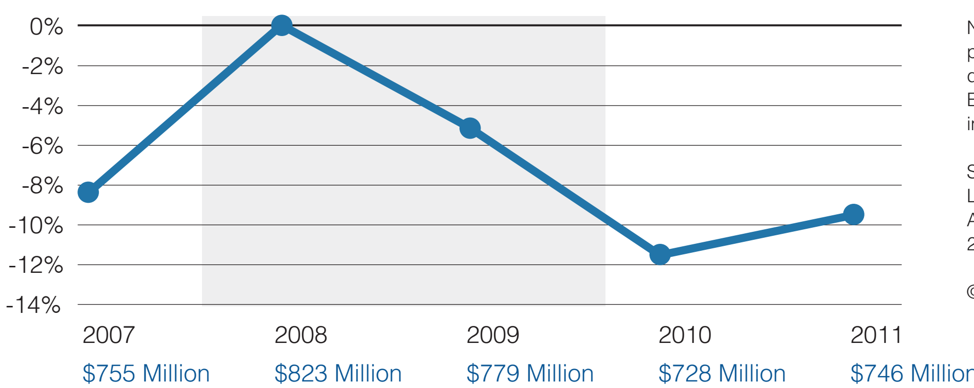
Las Vegas

Overall revenue fell sharply in Las Vegas, led by contracting intergovernmental aid

Las Vegas continued to struggle financially two years after the end of the Great Recession in 2009. As of 2011, city revenue had failed to return to its 2008 peak, hindered by significant drops in intergovernmental aid—which accounts for more than half of Las Vegas' receipts—and local revenue such as licenses, permits, and property taxes. (See Figure 1.) Despite tapping its Fiscal Stabilization Fund, the city was also compelled to enact $51 million in spending cuts between 2008 and 2010 to deal with the revenue shortfall. In addition, adequately funding the city's pension and retiree health care plans remains a long-term challenge.[1]

FIGURE 1

Las Vegas Governmental Revenue, Percent Change From Pre-downturn Peak, 2007-11



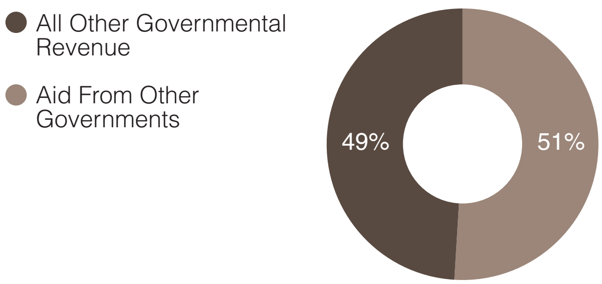
Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

Source: Pew calculations from Las Vegas' Comprehensive Annual Financial Reports for fiscal 2007-11.

Las Vegas has limited sources of revenue, largely because the state does not allow its cities to levy and collect sales and income taxes.[2] (See Figure 2.) The city's limited options—its lack of own-source revenue or ability to change tax rates—exacerbated the negative effects of a decline in intergovernmental aid, mainly from the state, of $54 million between the 2008 revenue high point and the low point in 2010, after adjusting for inflation. Charges and fees also fell $21 million during this period, led by decreases in licenses, permits, forfeits, and fines.

FIGURE 2

Las Vegas Intergovernmental Revenue vs. Other Sources, 2011



Source: Pew calculations from Las Vegas' Comprehensive Annual Financial Reports for fiscal 2007-11.

Property tax revenue growth increased $2 million from 2008 to 2010, before dropping $40 million in 2011 as lagging assessments began to reflect years of falling property values. Despite that loss, total revenue rebounded slightly in 2011, primarily as a result of increases in nontax revenues such as grants and other contributions for the Performing Arts Center.[3] Las Vegas also received at least $34 million through the American Recovery and Reinvestment Act during this period, the majority of which was devoted to infrastructure improvements.[4]

Although the city used some of its reserves in 2010 to mitigate revenue decreases, it also cut costs. Between 2008 and 2010, Las Vegas cut $53 million from general government, and another $33 million from parks, recreation, and cultural facilities—reducing the former by half and the latter by about a third.[5] The city then reduced total operating expenditures by an additional 6 percent from 2010 to 2011. Throughout the recession, many of the cuts represented one-time programs and one-time policy actions.[6] But Las Vegas also eliminated more than 600 positions by 2011; layoffs accounted for 270 of these.[7]

Managing the future: Las Vegas' reserves remained well funded through the recession, leaving the city with resources to guard against future downturns

Spending commitments, demand for services, and revenue performance are among key factors that will affect Las Vegas' future fiscal health. Three long-term obligations which can be analyzed using the data available are pensions and retiree health care and other benefits and reserve levels.

Spending cuts, combined with the revenue gains in 2011, allowed Las Vegas to build strong reserves. Its balance reached $138 million in 2011 after being drawn down to $75 million a year earlier.

Pension and retiree health care plans for the city, on the other hand, are cause for concern. In 2010, its pension plan had assets totaling 70 percent of liabilities and retiree health care plans had nothing set aside to cover $133 million in long-term commitments.[8]

See Pew's 30-city interactive at pewstates.org/City-Fiscal-Conditions-Interactive for complete data.

Endnotes

1 See the full study methodology at pewstates.org/City-Fiscal-Methodology for a detailed explanation of the terms used in this profile and view the underlying data at pewstates.org/City-Fiscal-Conditions-Interactive.

2 In Nevada, cities do not levy sales taxes. Instead, the state collects this tax and distributes the money to cities using a formula. The state also limits property tax revenue increases to 6 percent per year, and neither the state nor cities collect an income tax. Nevada Department of Taxation, "Sales Tax Map," rev. July 1, 2012, http://tax.state.nv.us/documents/sales_tax_map.pdf; and Nevada Taxpayers Association, *Understanding Nevada's Property Tax System, 2011-2012 Edition, 5*, http://www.nevadataxpayers.org/pdf/property-tax-2011-12.pdf.

3 City of Las Vegas, *Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2011* (2011), 22 and 209, https://www.lasvegasnevada.gov/files/CLV_FY_2011_CAFR.pdf.

4 Office of Administrative Services, American Recovery and Reinvestment Act Committee, *Summary of Grant Awards and Their Benefits to the City of Las Vegas, October-December 2009, Federal FY2009, Quarter 3*, rev. Feb. 5, 2010, http://www.lasvegasnevada.gov/files/Report_on_Awarded_ARRA_Grants_and_their_Benefits_Q3_Oct-Dec09.pdf.

5 The cuts in parks, recreation, and cultural facilities were largely the result of reductions after a one-time grant in 2008. The $35 million federal grant, provided under the Southern Nevada Public Lands Management Act, came from the Bureau of Land Management. The amount was passed through to the Las Vegas Valley Water District, which is a sub-recipient on the grant. City of Las Vegas, *Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2008* (2009), 59, http://lasvegasnevada.gov/files/CLV_CAFR_08.pdf.

6 For example, an accounting change in 2009 spread utilities and maintenance costs across different categories such as public safety and recreation, reducing general government spending. City of Las Vegas, *Comprehensive Annual Financial Report, for the Fiscal Year Ended June 30, 2009* (2009), 22, http://lasvegasnevada.gov/files/CLV_FY_2009_CAFR.pdf.

7 Alan Choate, "Las Vegas Fiscal Year Spending Approved," *Las Vegas Review-Journal* (May 17, 2011), http://www.reviewjournal.com/news/government/las-vegas-fiscal-year-spending-approved.

8 For more information on and analysis of the state of retirement funding in the 30 cities, see The Pew Charitable Trusts, American cities project, *Cities Squeezed by Pension and Retiree Health Care Shortfalls* (March 2013), http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_city_pensions_brief.pdf.

This profile captures key financial trends before, during, and after the Great Recession for Los Angeles, one of 30 cities examined by The Pew Charitable Trusts' American cities project. These profiles provide baselines for understanding the fiscal conditions of our cities and for ongoing research, analysis, and policy guidance.

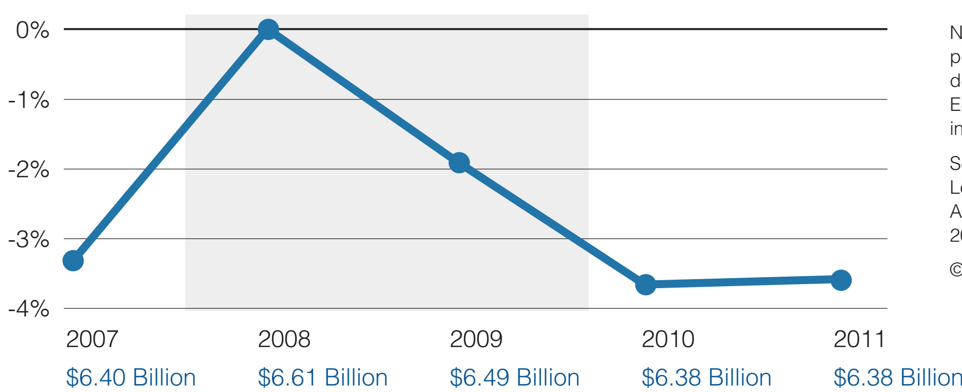
Los Angeles

Ongoing deficits presented challenges to Los Angeles during and after the Great Recession

As of 2011, Los Angeles' revenue was 4 percent below its 2008 peak, and the city faced continuing financial challenges two years after the end of the Great Recession. (See Figure 1.) The revenue shortfalls forced officials to tap into reserve funds and enact nearly a half-billion dollars in cuts, which included reducing the city workforce by nearly 5,000 positions.[1] But pension reforms helped keep Los Angeles among the better-funded large cities in terms of its retiree obligations.[2]

FIGURE 1

Los Angeles Governmental Revenue, Percent Change From Pre-downturn Peak, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

Source: Pew calculations from Los Angeles' Comprehensive Annual Financial Reports for fiscal 2007-11.

Significant cuts in operating expenditures weren't enough to offset revenue declines

Los Angeles' nontax revenue had the greatest impact on the city's revenue losses as investment earnings dipped from $268 million in 2008 to $107 million in 2010, a drop the city attributed to declining interest rates.[3] Other taxes—including those on utilities, business, parking, property transfers, and hotels—also declined, falling $158 million between 2008 and 2010.

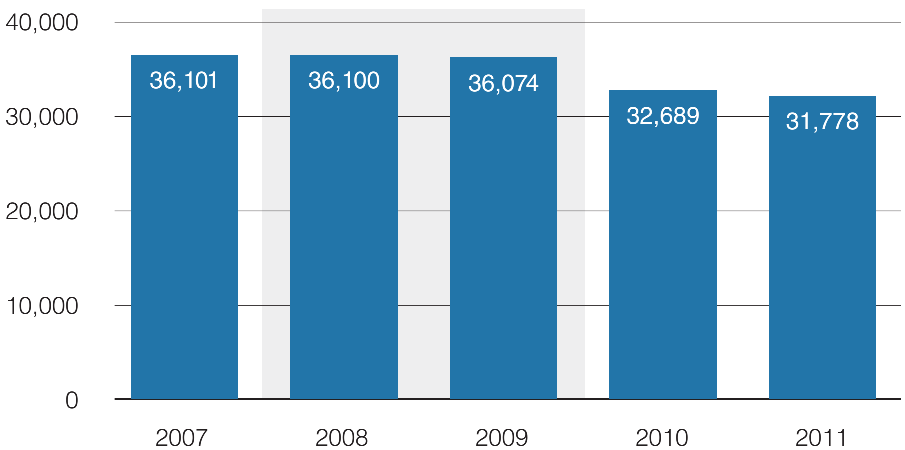
Some key revenue categories, however, were starting to show signs of improvement during this period. A $122 million increase in charges in fees—largely resulting from a phased, four-year waste disposal rate increase imposed on all single- and multiple-unit dwellings—represented the most significant increase.

Property tax collections increased by $30 million, and intergovernmental aid grew by $6 million, bolstered by $611 million in federal stimulus money authorized under the American Recovery and Reinvestment Act.[4]

In response to declining revenue, city officials reduced operating spending by 5 percent in 2010, with the largest cuts affecting public safety and public works and transportation. Los Angeles achieved an additional 3 percent in cuts between 2010 and 2011 in part by reducing the workforce through early retirement incentives, layoffs, and leaving vacant positions unfilled. (See Figure 2.) For example, the number of full-time employees working on street services (including cleaning and resurfacing) dropped almost 25 percent over the two years.[5]

FIGURE 2

Los Angeles Full-Time Equivalent Employees, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research.

Source: Pew calculations from Los Angeles' Comprehensive Annual Financial Reports for fiscal 2007-11.

Managing the future: Los Angeles remains vulnerable to fiscal trouble, even as revenue rebounds

Demand for services, investment decisions, and revenue performance will be critical factors in Los Angeles' continuing fiscal well-being. Long-term factors of financial health, which can be analyzed using the data available, are pensions and retiree health care obligations and reserve levels.

Persistent shortfalls in the city budget actually began long before the onset of the Great Recession.[6] Los Angeles had relied on relatively small draws from reserves to balance its budgets.[7] Reserve levels then continued to decline each year from 2007 to 2010 before rebounding slightly in 2011.

Despite signs that revenue was starting to rebound, Los Angeles' budget chief warned in 2012 that persistent deficits could continue to put severe strains on the city's financial position over the long term.[8] The mayor's budget for 2012-2013 included more than $200 million in spending cuts, including personnel reductions, as well as revenue enhancements designed to eliminate the deficit.[9]

In 2012, Los Angeles increased the retirement age and decreased benefits for city employees covered under its pensions and retiree health care plans to reduce costs,[10] continuing the city's attempts to relieve budget pressures created by a requirement in the city charter that full payments toward pension benefits be made every year.[11] While this obligation has stressed Los Angeles' finances, it has also led to a pension funding level that was 84 percent in 2010, down from 92 percent in 2007 but still relatively strong.

See Pew's 30-city interactive at pewstates.org/City-Fiscal-Conditions-Interactive for complete data.

Endnotes

1 Kate Linthicum, "L.A. Budget Chief Warns of Bankruptcy Without Tax Hikes, Layoffs," *Los Angeles Times* (April 7, 2012), http://articles.latimes.com/2012/apr/07/local/la-me-la-insolvency-20120407.

2 See the full study methodology at pewstates.org/City-Fiscal-Methodology for a detailed explanation of the terms used in this profile and view the underlying data at pewstates.org/City-Fiscal-Conditions-Interactive.

3 City of Los Angeles, *Comprehensive Annual Financial Report, for the Fiscal Year Ended June 30, 2011* (2011), 18–19, http://www.sco.ca.gov/Files-ARD/CAFR/cafr11web.pdf.

4 Funding levels reported are over the life of the stimulus legislation. "LA Recovery: Stimulus at a Glance," updated August 2012, http://recovery.lacity.org/recovery/docs/JuneSAAG2.pdf; City of Los Angeles, *Comprehensive Annual Financial Report, for the Fiscal Year Ended June 30, 2010* (2010), 9, http://www.scag.ca.gov/publications/pdf/2010/FinancialReport063010.pdf; and City of Los Angeles, *Comprehensive Annual Financial Report, for the Fiscal Year Ended June 30, 2011* (2011), 9, http://www.sco.ca.gov/Files-ARD/CAFR/cafr11web.pdf.

5 City of Los Angeles, *Comprehensive Annual Financial Report, for the Fiscal Year Ended June 30, 2011*, 363.

6 Ibid., 336–337.

7 City of Los Angeles, *Fiscal Year 2006–2007 Budget Summary*, accessed March 27, 2013, http://cao.lacity.org/bud2006-07/Proposed_Budget_Summary_2006-07.pdf.

8 Linthicum, "L.A. Budget Chief Warns of Bankruptcy Without Tax Hikes, Layoffs."

9 City of Los Angeles, Fiscal Year 2012–2013 *Budget Summary*, accessed March 27, 2013, http://cao.lacity.org/budget12-13/2012-13Budget_Summary.pdf.

10 This plan did not include pensions for police and firefighters. "Pension Rollback Passed by Los Angeles City Council," *Los Angeles Times* (Oct. 26, 2012), http://latimesblogs.latimes.com/lanow/2012/10/pension-rollback-passed-by-the-los-angeles-city-council.html.

11 *Los Angeles Charter and Administrative Code, Volume II: Employment Provisions; Article XI: Pension and Retirement Systems*, accessed March 27, 2013, http://www.amlegal.com/nxt/gateway.dll/California/laac/administrativecode?f=templates$fn=default.htm$3.0$vid=amlegal:losangeles_ca_mc.

This profile captures key financial trends before, during, and after the Great Recession for Miami, one of 30 cities examined by The Pew Charitable Trusts' American cities project. These profiles provide baselines for understanding the fiscal conditions of our cities and for ongoing research, analysis, and policy guidance.

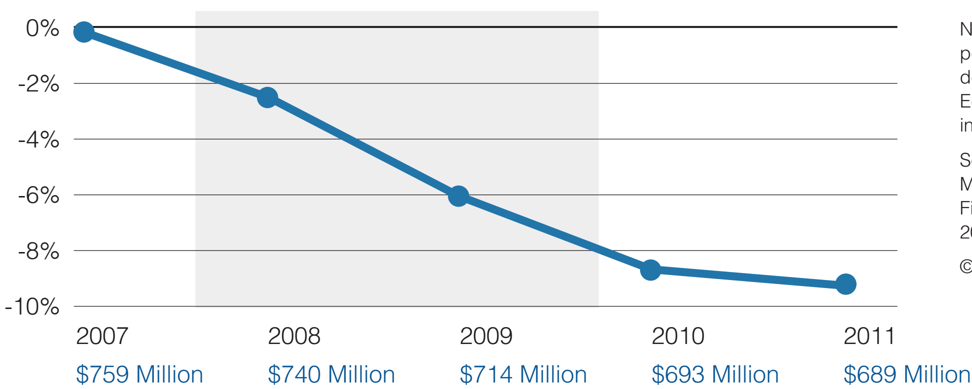
Miami

Falling revenue hits Miami hard long after the end of the Great Recession, forcing cuts and sapping reserves

Two years after the end of the Great Recession in 2009, Miami's revenue was still dropping. City receipts plunged 9 percent from 2007 to 2011, driven initially by reductions in intergovernmental aid and decreasing charges and fees. (See Figure 1.) The sharpest declines came in 2010, when property tax collections—the city's largest stream—began to reflect Florida's crumbling housing market. To address its revenue shortfall, Miami first tapped reserve funds and later enacted steep cuts in public safety. In addition to these immediate challenges, a sharp drop in pension funding levels has raised concerns for the future.[1]

FIGURE 1

Miami Governmental Revenue, Percent Change From Pre-downturn Peak, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

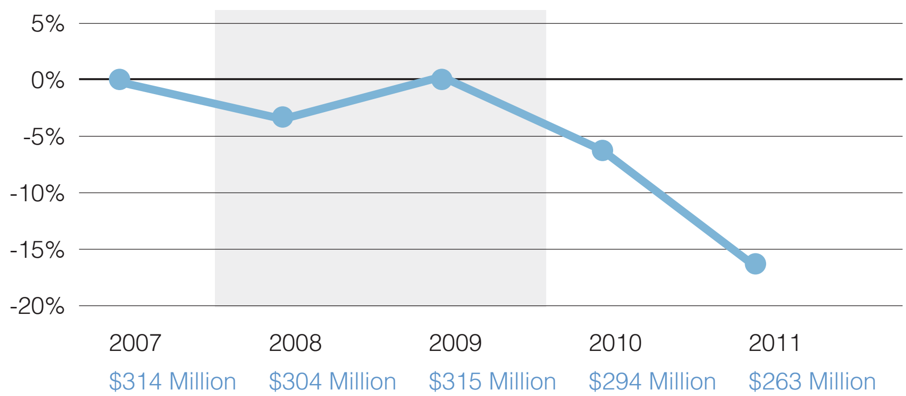
Source: Pew calculations from Miami's Comprehensive Annual Financial Reports for fiscal 2007-11.

Property tax collections collapsed in 2010, prompting sharp cuts

Property tax collections fell $20 million between 2007 and 2010. Because of a 15-month lag between property tax assessments and the due date for payments, however, the most substantial declines did not hit until 2011—shrinking the city's property tax base by $7.4 billion from 2010.[2] Those revisions in tax-assessed values drove receipts down another $32 million. (See Figure 2.) Nontax revenue, predominately interest on investments, declined by $23 million between 2007 and 2011. A small increase in intergovernmental aid was the only offset to these steep losses. The city received at least $37 million in direct funding from the American Recovery and Reinvestment Act.[3]

FIGURE 2

Percent Change From 2007 in Miami Property Tax Revenue, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

Source: Pew calculations from Miami's Comprehensive Annual Financial Reports for fiscal 2007-11.

Miami responded to the revenue declines with significant spending reductions, cutting operating expenditures by $41 million between 2007 and 2011. The city's biggest spending category, public safety, decreased 20 percent, with reductions split about evenly between police and fire operations.[4] During the same period, the city also reduced spending on public works and transportation by 24 percent; spending for parks, recreation, and cultural facilities was trimmed by 18 percent. In some areas, however, spending grew. General government spending increased 11 percent between 2007 and 2011, and debt service grew steadily over the period by 28 percent.

Revenue shortfalls prompted officials to tap reserves, and a lawsuit over union contracts forced additional drawdowns, reducing reserve levels from $103 million in 2007 to just $17 million in 2011.[5]

Managing the future: Pension problems are among Miami's future challenges

Demand for services, investment decisions, and revenue performance will be key factors in Miami's future fiscal well-being. Long-term obligations which can be analyzed using the data available are pensions and retiree health care and other benefits and reserve levels.

Miami's pension plans experienced an erosion of assets—in part due to underperforming investments—that left the system's funding level at 77 percent in 2010, down from 92 percent three years earlier.[6] In summer 2012, city officials renegotiated with union leaders to change the way the city's contributions are calculated, revising the plan, and adjusting employee contributions.[7]

Standard & Poor's cited the city's dramatic reduction in reserve funds, increasing debt, and shrinking pension funding when it downgraded Miami's debt from A+ to BBB+ in 2010.[8] In 2012, the U.S. Securities and Exchange Commission alleged municipal securities fraud, saying the city manipulated its financial documents to give the appearance of a balanced budget in an attempt to mislead bond investors.[9] Following that announcement, Moody's said it had "fundamental" concerns as it launched a review of the city's long-term financial stability, raising the specter of further downgrades.[10]

See Pew's 30-city interactive at pewstates.org/City-Fiscal-Conditions-Interactive for complete data.

Endnotes

1 See the full study methodology at pewstates.org/City-Fiscal-Methodology for a detailed explanation of the terms used in this profile and view the underlying data at pewstates.org/City-Fiscal-Conditions-Interactive.

2 City of Miami, *Comprehensive Annual Financial Report, for the Fiscal Year Ended September 30th, 2011* (2011), 144, http://www.miamigov.com/finance/CAFR/2011%20CAFR_w_EY%20Opinion_v1_5-18-12.pdf.

3 City of Miami, *Comprehensive Annual Financial Report, for the Fiscal Year Ended September 30th, 2010* (2010), vii, http://www.miamigov.com/Finance/CAFR/City%20of%20Miami%20FY2010%20CAFR.pdf.

4 General fund spending on police and fire operations declined $22 million and $23 million, respectively, without adjusting for inflation; the reduction of 20 percent in public safety expenditures between 2007 and 2011 refers to public safety spending across all governmental funds and has been adjusted for inflation. City of Miami, *Comprehensive Annual Financial Report, for the Fiscal Year Ended September 30th, 2008* (2008), 79, http://www.miamigov.com/finance/CAFR/2008%20CAFR.pdf; City of Miami, *Comprehensive Annual Financial Report, for the Fiscal Year Ended September 30th, 2011*, 85.

5 Charles Rabin, "Imposed Salary, Pension Cuts Lead to Police Union Suit Against Miami," *Sun Sentinel* (Sept. 3, 2010), http://articles.sun-sentinel.com/2010-09-03/news/fl-miami-sued-20100903_1_police-union-financial-urgency-union-contracts.

6 Kathleen McGrory, "Inertia, Politics Keep Miami in Constant Financial Crisis," *Miami Herald* (Sept. 30, 2012), http://www.miamiherald.com/2012/09/30/3028216/inertia-politics-keep-miami-in.html. For more information on and analysis of the state of retirement funding in the 30 cities, see The Pew Charitable Trusts, American cities project, *Cities Squeezed by Pension and Retiree Health Care Shortfalls* (March 2013), http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_city_pensions_brief.pdf.

7 Kathleen McGrory, "Miami, Labor Unions Reach Contract Agreements That Help City Balance Budget," *Miami Herald* (Sept. 21, 2012), http://www.miamiherald.com/2012/09/21/3014138/miami-labor-unions-reach-contract.html.

8 Standard & Poor's, "Miami, FL's Debt Rating Affirmed at 'BBB+' " (Dec. 22, 2010), BondsOnline, http://www.bondsonline.com/Todays_Market/Credit_Rating_News_.php?DA=view&RID=594.

9 Kathleen McGrory and Charles Rabin, "Miami Misled Investors Over City's Financial Health, SEC Finds," *Miami Herald* (July 24, 2012), http://www.miamiherald.com/2012/07/24/2909602/miami-misled-investors-over-citys.html.

10 Douglas Hanks, "Moody's Cites New Concerns, Broadened Review of Miami's Financial Health," *Miami Herald* (Aug. 29, 2012), http://www.miamiherald.com/2012/08/29/2975167/moodys-cites-new-concerns-broadened.html.

This profile captures key financial trends before, during, and after the Great Recession for Minneapolis, one of 30 cities examined by The Pew Charitable Trusts' American cities project. These profiles provide baselines for understanding the fiscal conditions of our cities and for ongoing research, analysis, and policy guidance.

Minneapolis

Minneapolis faces ongoing fiscal challenges after intergovernmental aid dwindled

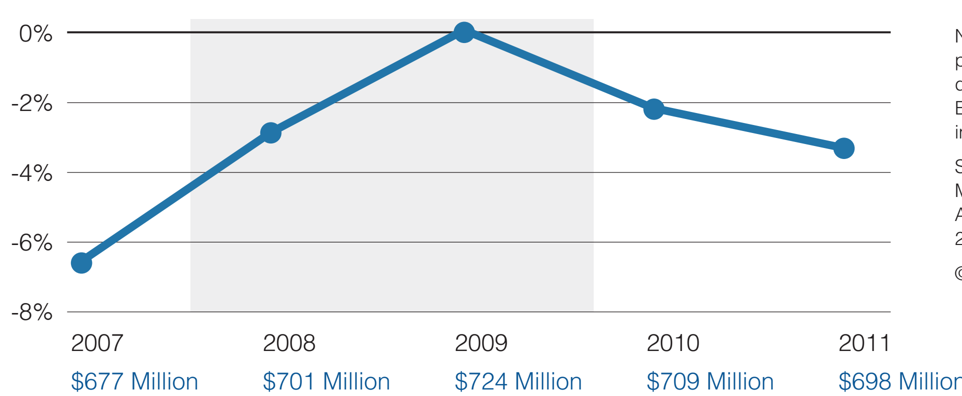
Against the backdrop of declining intergovernmental aid, swings in Minneapolis' most important own-source revenue categories challenged the city through the Great Recession and beyond. Even two years after the end of the downturn, revenue was still falling. Significant reductions in debt service payments outweighed modest spending growth in other areas, allowing reserve levels to grow modestly. But funding of some long-term obligations fell short and is an ongoing fiscal challenge.[1]

Intergovernmental aid continued to fall despite stimulus spending

Total revenue fell 4 percent between the 2009 peak and the low point in 2011. (See Figure 1.) Two drivers of that loss were intergovernmental aid and property taxes. Intergovernmental aid dropped $18 million (10 percent) after adjusting for inflation. Even the American Recovery and Reinvestment Act, which sent $65 million in federal money to Minneapolis between 2009 and 2011, could not offset the decline.[2] This sudden drop perpetuated the uncertainty of city officials who had seen continual fluctuation in aid from other governments throughout the previous decade, requiring them to revise budgets and propose alternate ones on several occasions.[3]

FIGURE 1

Minneapolis Governmental Revenue, Percent Change From Pre-downturn Peak, 2007-11



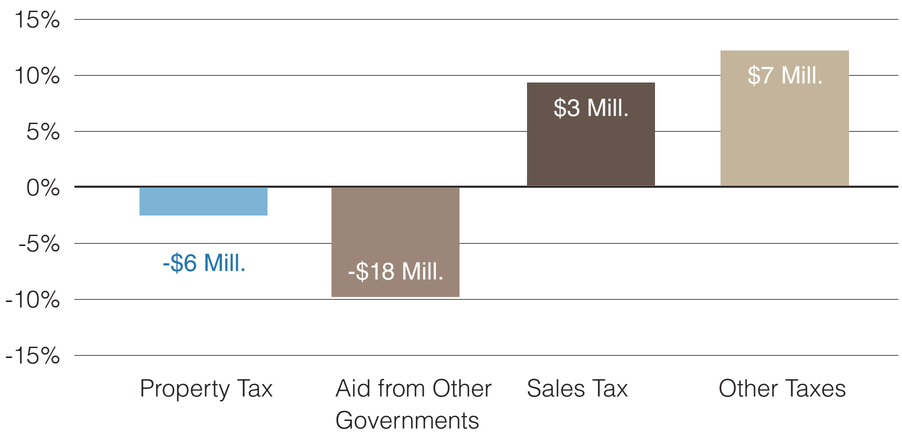
Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

Source: Pew calculations from Minneapolis' Comprehensive Annual Financial Reports for fiscal 2007-11.

As state support declined, property tax collections peaked in 2009 after growing rapidly through much of the decade.[4] They dropped sharply in 2010, when the city's total assessed real estate valuation fell 10 percent, but then rebounded slightly the next year, in part because of a 5 percent tax rate increase.[5] The sales tax and a collection of other taxes helped partially offset losses, growing a combined $9 million between 2009 and 2011. (See Figure 2.)

FIGURE 2

Key Drivers of Change in Minneapolis' Revenue, 2009-11



Source: Pew calculations from Minneapolis' Comprehensive Annual Financial Reports for fiscal 2007-11.

In 2009, as revenue was peaking, the city began to pay off more than $100 million in outstanding general obligation debt.[6] By 2011, debt service payments had decreased significantly, which largely accounted for a $16 million reduction in operating spending just as revenue was declining between 2009 and 2011. The reduction in debt service payments was large enough to outweigh smaller increases in spending on public safety, housing and economic development, and most other expenditure categories.

Managing the future: Reserves were strong, but pension funding dipped during the recession

Demand for services, investment decisions, and revenue performance driven by economic activity and demographic changes will shape Minneapolis' fiscal future. Several long-term factors of financial health, which can be analyzed using the data available, are pensions and retiree health care obligations and reserve levels.

Despite the continued decline in revenue through 2011, city reserves grew slightly, to $72 million from $69 million, in 2009. The city's long-term retirement obligation funding fell short, however. Minneapolis' pension plans were 76 percent funded in 2010, down from 86 percent three years earlier, and the city had not set aside any assets for retiree health care benefits.[7] In an effort to make reforms in 2010 and 2011, Minneapolis consolidated three closed pension plans into the state-run system.[8]

See Pew's 30-city interactive at pewstates.org/City-Fiscal-Conditions-Interactive for complete data.

Endnotes

1 See the full study methodology at pewstates.org/City-Fiscal-Methodology for a detailed explanation of the terms used in this profile and view the underlying data at pewstates.org/City-Fiscal-Conditions-Interactive.

2 City of Minneapolis, 2011 Council Adopted Budget, 79, http://www.minneapolismn.gov/www/groups/public/@finance/documents/webcontent/convert_277144.pdf.

3 Intergovernmental aid increased $36 million between 2008 and 2010, then dropped $26 million in 2011. Moody's Investors Service, "Moody's Assigns Aaa Rating to the City of Minneapolis' (MN) $5.5 Million GO Improvement Bonds, Series 2012," new issue (Nov. 2, 2012), http://www.moodys.com/research/Moodys-assigns-Aaa-rating-to-the-City-of-Minneapolis-MN-New-Issue--NIR_900785232.

4 Ibid. Moody's reported that Minneapolis' property taxes were generally more stable and predictable than aid from the state.

5 Ibid.

6 In 2009, the city's outstanding general obligation bonds totaled $1,011,818,000. City of Minneapolis, *Comprehensive Annual Financial Report, for the Fiscal Year Ended December 31, 2009* (2010), 21, http://www.minneapolismn.gov/www/groups/public/@finance/documents/webcontent/wcms1p-096741.pdf. In 2011, the outstanding general obligation debt was $883,358,000. City of Minneapolis, *Comprehensive Annual Financial Report, for the Fiscal Year Ended December 31, 2011* (2012), 22, http://www.minneapolismn.gov/www/groups/public/@finance/documents/webcontent/wcms1p-096739.pdf. These figures are nominal.

7 For more information about and analysis of the state of retirement funding in the 30 cities, see The Pew Charitable Trusts, American cities project, *Cities Squeezed by Pension and Retiree Health Care Shortfalls*, (March 2013), http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_city_pensions_brief.pdf.

8 Public Employees Retirement Association of MN, "MERF Now a Separate PERA 'Division,' " news release (May 18, 2010), http://www.mnpera.org/index.asp?Type=B_BASIC&SEC={1A8D55BC-4C02-42B8-9DA6-01F39F6D85F8}#merf2.

This profile captures key financial trends before, during, and after the Great Recession for New York, one of 30 cities examined by The Pew Charitable Trusts' American cities project. These profiles provide baselines for understanding the fiscal conditions of our cities and for ongoing research, analysis, and policy guidance.

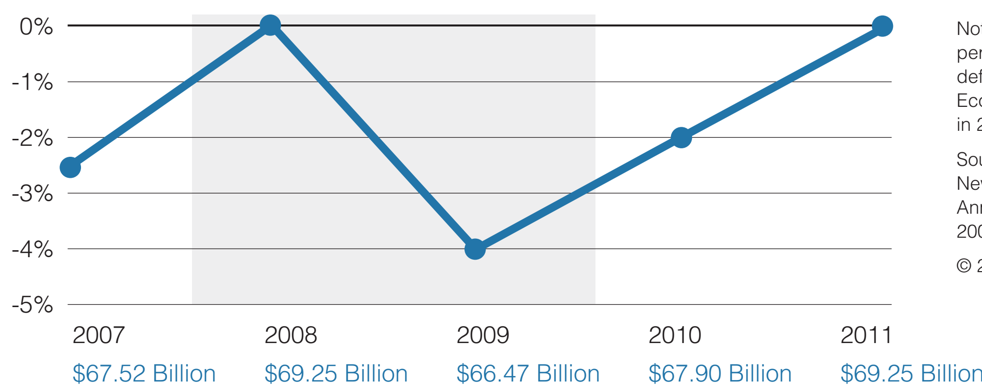
New York

An increase in property and sales tax revenue helped New York bounce back from the Great Recession

Two years after the end of the Great Recession, New York's revenue had almost returned to its previous peak by 2011. Total revenue had declined 4 percent between the 2008 peak and the 2009 low point, after adjusting for inflation. (See Figure 1.) Property and sales taxes were responsible for much of the recovery after that 2009 trough. Expenditures grew at the same time, though not as rapidly. New York's pensions and retiree health care obligations, the largest of any city in the country, remained underfunded, though reforms are underway.[1]

FIGURE 1

New York Governmental Revenue, Percent Change From Pre-downturn Peak, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

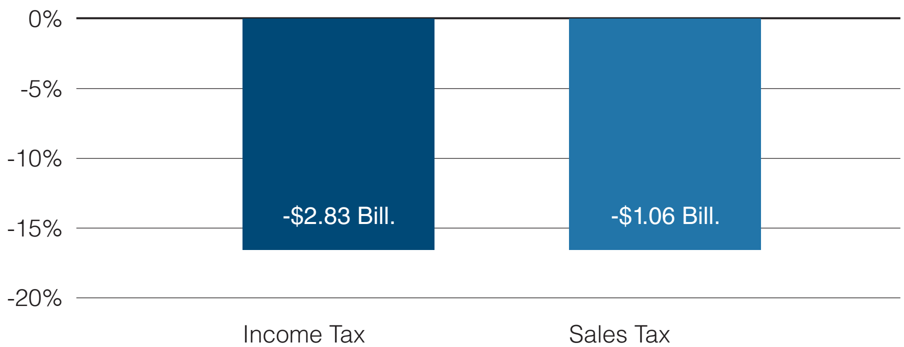
Source: Pew calculations from New York's Comprehensive Annual Financial Reports for fiscal 2007-11.

New York reversed a property tax cut and expanded its sales tax to increase revenue

Economically sensitive sources such as the income and sales taxes drove New York's revenue losses in 2009. (See Figure 2.) In the years that followed, however, $6 billion in annual infusions—from tax increases, savings from restructuring of employee health insurance, and a drawdown of assets from retiree health benefits, and other sources—helped plug the holes.[2]

FIGURE 2

Key Drivers of Change in New York's Revenue, 2008-09



Source: Pew calculations from New York's Comprehensive Annual Financial Reports for fiscal 2007-11.

Halfway through fiscal 2009, New York reversed a 7 percent property tax cut and eliminated a homeowner rebate program.[3] These changes contributed to $2.3 billion in property tax growth from 2009 to 2011. A sales tax rate increase and expansion, as well as a temporary rate increase for hotel and business taxes, also improved the revenue picture.[4]

Other important revenue sources declined during this period, however, offsetting some of the property and sales tax gains. Despite the passage of the American Recovery and Reinvestment Act, total aid from other governments fell slightly from 2009 to 2011. In addition, nontax revenue—most of which came from the School Construction Authority—dropped $791 million during the same period.[5]

With a state mandate to carry no reserves,[6] New York found other sources to tap. In the years after the recession, for example, the city borrowed from the assets set aside for retiree health care to fill budget gaps.[7]

Operating expenditures grew $1.4 billion from 2009 to 2011. The largest increases were for debt service, education, and public safety.[8]

Managing the future: Widening gaps in pension funding and retiree health care obligations set the stage for reform

Demand for services, investment decisions, and revenue performance driven by economic activity and demographic changes will shape New York's fiscal future. Two long-term obligations that can be analyzed using the data available are pensions and retiree health care and other benefits.

New York has by far the largest pension system of any American city. Pension funding levels were 60 percent in 2010, down from 72 percent three years earlier, leaving $70 billion in unfunded obligations. In an effort to stem the growing gap, state lawmakers in 2012 created a discrete public pension tier category for newly hired state and local employees.[9] The law increased the retirement age, revised employee contribution rates, and extended the number of working years used to calculate final average compensation.

In 2006 and 2007, when economic conditions were strong, the city funded some of its retiree health obligations. But by 2010, after the city had used the funds to cover budget shortfalls, those liabilities were only 4 percent funded, leaving New York with just $3 billion in assets to cover a $74 billion bill over the next several decades.[10]

See Pew's 30-city interactive at pewstates.org/City-Fiscal-Conditions-Interactive for complete data.

Endnotes

1 See the full study methodology at pewstates.org/City-Fiscal-Methodology for a detailed explanation of the terms used in this profile and view the underlying data at pewstates.org/City-Fiscal-Conditions-Interactive.

2 Thomas P. DiNapoli and Kenneth B. Bleiwas, *Review of the Financial Plan of the City of New York, Report 7-2010*, Office of the State Comptroller and Office of the State Deputy Comptroller for the City of New York, 19-20, http://www.osc.state.ny.us/osdc/rpt7-2010.pdf.

3 Ibid.

4 The combination of the sales tax rate increase from 8.375 percent to 8.875 percent, the repeal of the exemption on clothing and footwear priced above $110, and the extension of the sales tax to energy purchases from nonutility companies was expected to yield $660 million for the city in fiscal 2010. Also, the sales tax was broadened to include nonresident and out-of-state purchases of motor vehicles, aircraft, and luxury vessels for in-state use and certain Internet purchases. Those changes were valued at $45 million annually for New York City. In December 2008, the City Council enacted a temporary increase in the hotel tax rate, from 5 percent to 5.875 percent, which was expected to generate $15 million in 2009, more than $60 million per year in 2010 and 2011, and $35 million in 2012. DiNapoli and Bleiwas, *Review of the Financial Plan of the City of New York, Report 7-2010*, 20.

5 City of New York, *Comprehensive Annual Financial Report of the Comptroller for the Fiscal Year Ended June 30, 2010,* 123, http://comptroller.nyc.gov/wp-content/uploads/documents/cafr2010.pdf.

6 The state of New York has played a key role in financial oversight of New York City since the city's financial crisis of the 1970s. The Financial Emergency Act, which was scheduled to terminate July 1, 2008, was effectively extended until 2033. Although the law no longer gives the state control of the city's budget, the state reviews and monitors financial plans, major budget and policy issues, and other economic decisions. New York State Office of the State Comptroller, "New York City Fiscal Oversight," accessed March 25, 2013, http://www.osc.state.ny.us/osdc/index.htm.

7 Thomas P. DiNapoli and Kenneth B. Bleiwas, *Review of the Financial Plan of the City of New York, Report 11-2013*, Office of the State Comptroller and Office of the State Deputy Comptroller for the City of New York, 25, http://www.osc.state.ny.us/osdc/rpt11-2013.pdf.

8 New York refinanced $6.6 billion in bonds from 2007 to 2011 and issued less than half as much debt for new projects in 2011 than it had in its peak year of 2009. Pew calculations from Thomson Reuters SDC Platinum municipal bond issuances database. Among the 30 cities studied, New York is one of just four to run its public school system and include it in its budgets. By contrast, in Philadelphia, the city helps fund the schools, but the city government does not run them and they are not part of the city budget.

9 The reform also requires New York City to pre-fund any new benefits it conceives of in future changes to its pension system. Joan Gralla and Dan Burns, "New York Cuts Pension Benefits for Public Workers," Reuters (March 15, 2012), http://www.reuters.com/article/2012/03/15/us-newyork-pensions-idUSBRE82E0OF20120315; Ron Snell, "Pensions and Retirement Plan Enactments in 2012 State Legislatures," National Conference of State Legislatures, updated April 2013, http://www.ncsl.org/issues-research/labor/2012-enacted-state-pension-legislation.aspx; and Laws of New York, Chapter 18: Relates to persons joining certain public retirement systems after April 1, 2012, Article 25: Benefits Enhancements (March 16, 2012)

10 For more information on and analysis of the state of retirement funding in the 30 cities, see The Pew Charitable Trusts, American cities project, *Cities Squeezed by Pension and Retiree Health Care Shortfalls* (March 2013), http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_city_pensions_brief.pdf.

This profile captures key financial trends before, during, and after the Great Recession for Orlando, one of 30 cities examined by The Pew Charitable Trusts' American cities project. These profiles provide baselines for understanding the fiscal conditions of our cities and for ongoing research, analysis, and policy guidance.

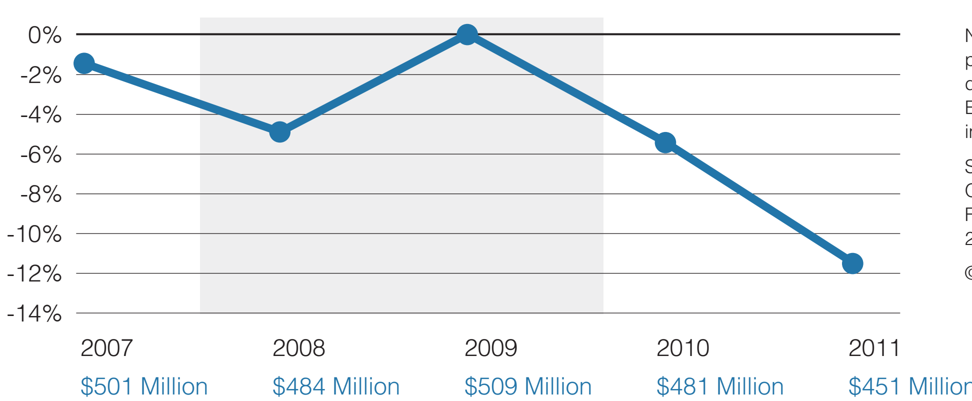
Orlando, FL

Choosing to meet annual pension payments and build reserves, Orlando cut spending as the housing bubble burst and revenue dropped

Two years after the Great Recession ended in 2009, Orlando's revenue was still dropping. Overall receipts fell 11 percent from their 2009 peak to 2011 largely because of a drop in property tax receipts as assessed home values declined sharply after the housing bubble burst in 2007. (See Figure 1.) Thanks in part to spending reductions, however, Orlando saw its financial cushion grow even as other Florida cities tapped their reserves in the wake of the state's housing crisis. Through the recession, Orlando continued to make full, recommended pension payments to keep up with its growing obligations.[1]

FIGURE 1

Orlando Governmental Revenue, Percent Change From Pre-downturn Peak, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

Source: Pew calculations from Orlando's Comprehensive Annual Financial Reports for fiscal 2007-11.

Property tax revenue fell sharply in the wake of the Great Recession

The city's property tax revenue, its second-largest source of income, began faltering in 2008 as taxable assessed values began to reflect declining home values. That year, city officials increased property tax rates, leading to a short-lived jump in collections.[2] After peaking in 2009, property tax receipts then declined 28 percent through 2011, after adjusting for inflation.

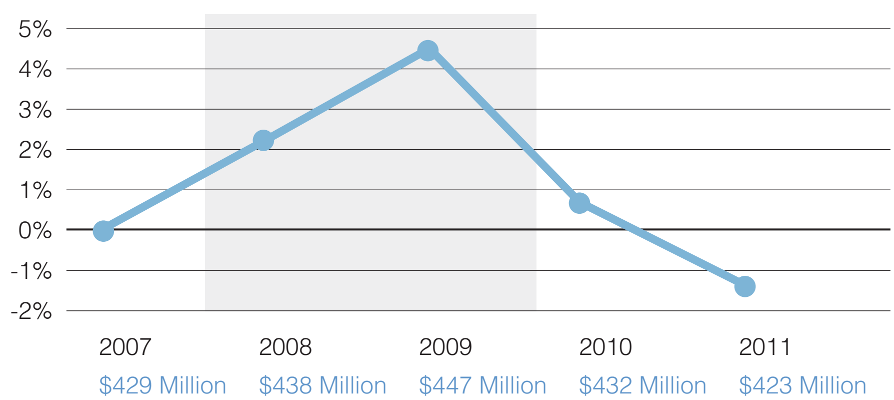
Nontax revenue also declined, falling $17 million between 2009 and 2011 as investment earnings dropped by more than half. Charges and fees—particularly building and related permit and transportation-impact fees—decreased $7 million during the same period.

Modest growth in intergovernmental revenue partially helped to offset these losses. The gains included increased contributions from the region's three Community Redevelopment Agencies as well as at least $7.5 million in grants from the American Reinvestment and Recovery Act in fiscal 2010.[3] Another $3.6 million in federal funds the following year included grants for community development, public safety, infrastructure, and energy conservation.

Operating expenditures fell 5 percent between 2009 and 2011 as local government shed 400 positions, consolidated public works and transportation, and eliminated cost-of-living increases for city employee groups.[4] (See Figure 2.)

FIGURE 2

Change From 2007 in Operating Spending in Orlando, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research.

Source: Pew calculations from Orlando's Comprehensive Annual Financial Reports for fiscal 2007-11.

Managing the future: Looking forward, Orlando built reserves and consistently set aside money for pension obligations

Spending commitments, demand for services, and revenue performance are among key factors that will affect Orlando's future fiscal health. Two long-term obligations which can be analyzed using the data available are pensions and retiree health care and other benefits and reserve levels.

Orlando's reserves grew $26 million in 2011 and represented 39 percent of general fund revenue that year, far exceeding the 15-to-25-percent requirement enacted in 2004.[5]

Between 2007 and 2010, Orlando made 100 percent of its annual recommended pension contribution each year, but its funding levels dropped from 95 to 84 percent as liabilities ballooned from $795 million to $982 million. The city's retiree health care obligations were funded at 15 percent in 2010, and in an effort to control costs and improve funding levels, in 2008 Orlando capped benefits for employees hired after 2004 and began fully funding those commitments.[6]

See Pew's 30-city interactive at pewstates.org/City-Fiscal-Conditions-Interactive for complete data.

Endnotes

1 See the full study methodology at pewstates.org/City-Fiscal-Methodology for a detailed explanation of the terms used in this profile and view the underlying data at pewstates.org/City-Fiscal-Conditions-Interactive.

2 State-imposed limits on property taxes, intended to aid homeowners during the recession, were implemented in 2008 and compounded the effect of the downturn. The following year, the city restored its property tax approximately to 2007 levels. For owner-occupied properties, a cap was set to restrict increases in assessed value to 3 percent per year. In addition, a one-time measure required municipalities to roll back collections to levels from the prior year, largely keeping property tax revenue flat and effectively reducing the property tax rate. Trista Winnie, "Florida Property Taxes," *NuWire Investor* (June 21, 2007), http://www.nuwireinvestor.com/articles/florida-property-taxes-51106.aspx; Constitution of the State of Florida, Article VII: Finance and Taxation, Section 4: Taxation, Assessments, http://www.flsenate.gov/Laws/Constitution; "No Sacred Cows in Crisis," *Orlando Sentinel* (May 24, 2009), http://articles.orlandosentinel.com/2009-05-24/news/ed_1_dyer-police-department-police-positions; Mark Schlueb, "Dyer: Orlando Budget Stable," *Orlando Sentinel* (July 17, 2007), http://articles.orlandosentinel.com/2007-07-17/news/BUDGET17_1_property-taxes-property-tax-city-property.

3 City of Orlando, *Comprehensive Annual Financial Report, for the Fiscal Year Ended September 30, 2010* (2010), 257–61, http://www.orlandoairports.net/finance/cafr/CAFR_2010.pdf.

4 City of Orlando, *Comprehensive Annual Financial Report, for the Fiscal Year Ended September 30, 2011* (2011), 255–56, and 258, http://www.orlandoairports.net/finance/cafr/CAFR_2011.pdf. The cost of living adjustment increases were restored in fall 2012. Mark Schlueb, "Orlando Leaders OK $354M Budget," *Orlando Sentinel* (Sept. 18, 2012), http://articles.orlandosentinel.com/2012-09-18/news/os-orlando-budget-approved-20120918_1_property-tax-rate-orlando-leaders-million-general-fund-budget.

5 City of Orlando, *Comprehensive Annual Financial Report, for the Fiscal Year Ended September 30, 2011*, viii.; City of Orlando, City of Orlando Reserve Policy, 3, approved by the City Council June 21, 2004, http://orlapp1.ci.orlando.fl.us/asv/paperlessAgendaArchive.nsf/6acecff5f30ecb0d85256bd0005abae0/b329d6139d37dc4985256eb00059363e?OpenDocument.

6 Ray Elwell, Orlando's deputy chief financial officer, pers. comm. (Nov. 14, 2012). For more information on and analysis of the state of retirement funding in the 30 cities, see The Pew Charitable Trusts, American cities project, *Cities Squeezed by Pension and Retiree Health Care Shortfalls* (March 2013), http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_city_pensions_brief.pdf.

THE PEW CHARITABLE TRUSTS

This profile captures key financial trends before, during, and after the Great Recession for Philadelphia, one of 30 cities examined by The Pew Charitable Trusts' American cities project. These profiles provide baselines for understanding the fiscal conditions of our cities and for ongoing research, analysis, and policy guidance.

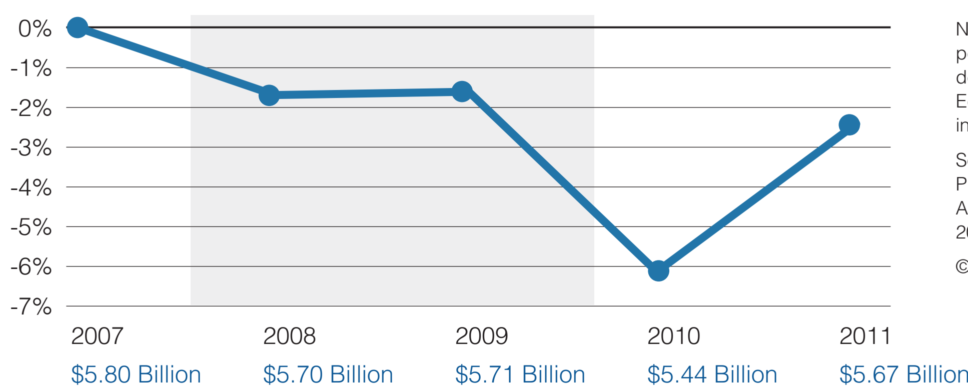
Philadelphia

Grim budget forecasts forced Philadelphia to make hard choices

By 2011, revenue was still 2 percent below the pre-recession peak, and Philadelphia's financial outlook was mixed. (See Figure 1.) Revenue bottomed out in 2010, primarily because of declines in intergovernmental aid. Then, faced with budget projections of $2 billion in shortfalls over the next five years, city and state officials made a series of tough decisions.[1] The city raised taxes, aggressively drew down reserve funds, and reduced many major areas of spending.[2] In 2010 and 2011, property tax collections contributed to a revenue uptick, and spending cuts helped policymakers begin restoring the city's reserves. Still, underfunded retirement obligations remain a concern for city finances going forward.[3]

FIGURE 1

Philadelphia Governmental Revenue, Percent Change From Pre-downturn Peak, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

Source: Pew calculations from Philadelphia's Comprehensive Annual Financial Reports for fiscal 2007-11.

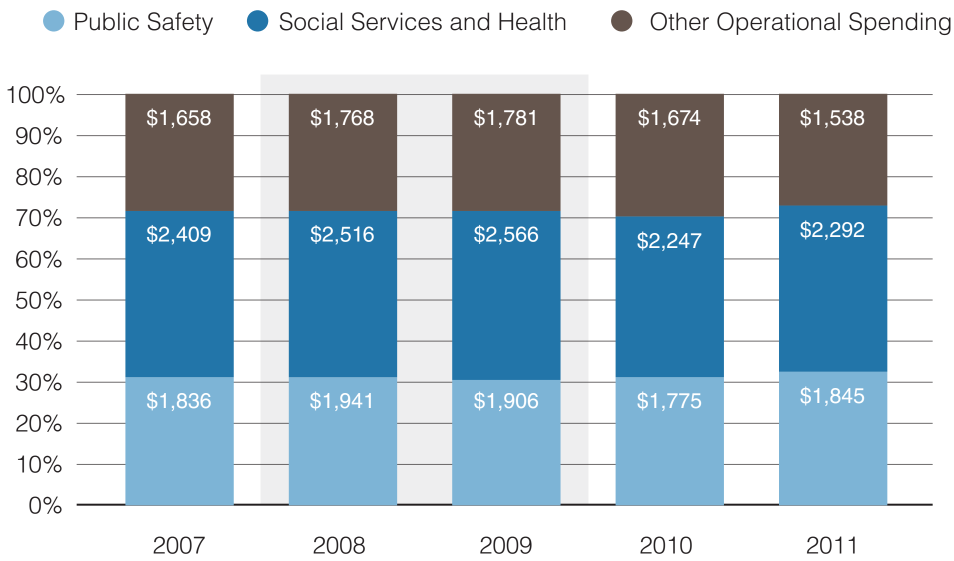
Increases to sales tax and property tax rates and a delay to reductions in income taxes kept revenue afloat

Philadelphia lost $356 million in total, inflation-adjusted revenue between a high point in 2007 and the lowest point in 2010. Declines in intergovernmental aid drove the losses despite an infusion of funds from the American Recovery and Reinvestment Act for the city.[4] Wage tax revenue also fell precipitously, declining $107 million over the period, even though the city delayed a scheduled 2009 rate decrease.[5] Sales taxes grew $71 million, offsetting other losses, but only after state officials authorized the city to temporarily increase sales tax rates in 2009.

City officials cut operating spending sharply between 2007 and 2010. A $149 million drop in social service and health expenditures and a $50 million reduction in public safety were the largest of the cuts. Together, these categories represent about two-thirds of city expenditures.[6] (See Figure 2.) Cutbacks in spending also included workforce reductions, mandatory furloughs for certain employees, and pay cuts for executive staff.[7] Philadelphia also deferred annual recommended payments to its pension system to meet current spending needs. Still, despite these cuts and other maneuvers, the city ran a $259 million deficit in its general fund in 2010.

FIGURE 2

Philadelphia Operating Spending by Category (in millions), 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in millions of 2011 dollars.

Source: Pew calculations from Philadelphia's Comprehensive Annual Financial Reports for fiscal 2007-11.

In 2010, the city council raised property tax rates, a move that helped this revenue source grow 18 percent a year later and become the major driver of the city's fiscal rebound.[8] The city also cut spending another $16 million in 2011. Combined, revenue growth and expenditure cuts in 2011 helped Philadelphia reduce its general fund deficit to $46 million.

Managing the future: Long-term liabilities loom large as Philadelphia works to meet 5-year balanced-budget projections

Demand for services, investment decisions, and revenue performance will be critical factors in Philadephia's future fiscal well-being. Two long-term obligations which can be analyzed using the data available are pensions and retiree health care and other benefits.

As the result of a previous state intervention to help turn around Philadelphia's finances,[9] the city is required to submit an annual plan that balances the budget five years into the future to a state oversight board.[10] Among other fiscal concerns, this long-term planning highlights issues in the management of retiree liabilities.

Philadelphia had not set aside any assets to cover $1.8 billion in retiree health care liabilities as of 2010.[11] Of even greater concern, however, was $7 billion in shortfalls the city faced in its pension funds, which were just 61 percent funded that year.[12] At press time, unresolved contracts with city workers' unions could raise future personnel costs, and, consequently, the cost of pension obligations.[13] These bills are cause for concern as growing annual pension payments claim an increasing portion of the city's available revenue.

See Pew's 30-city interactive at pewstates.org/City-Fiscal-Conditions-Interactive for complete data.

Endnotes

1 Moody's Investor Service, *Moody's Assigns Aa2 Rating to the City of Philadelphia Municipal Authority's (PA) $13.2 Million City Agreement Revenue Bonds, Series 2012A and B* New Issue (2012), https://www.moodys.com/research/MOODYS-ASSIGNS-A2-RATING-TO-THE-PHILADELPHIA-MUNICIPAL-AUTHORITYS-PA--PR_243694..

2 *Municipal Pension Plan Funding Standard and Recovery Act - Omnibus Amendments* (2009), http://www.legis.state.pa.us/WU01/LI/LI/US/HTM/2009/0/0044..HTM.; Moody's Investor Service, *Moody's Assigns Aa2 Rating to the City of Philadelphia Municipal Authority's (PA) $13.2 Million City Agreement Revenue Bonds, Series 2012A and B* (2012). .

3 See the full study methodology at pewstates.org/City-Fiscal-Methodology for a detailed explanation of the terms used in this profile and view the underlying data at pewstates.org/City-Fiscal-Conditions-Interactive.

4 Recovery.gov is the official U.S. government website for data related to the American Recovery and Reinvestment Act: http://www.recovery.gov/Transparency/RecoveryData/Pages/RecipientReportedDataMap.aspx?stateCode=PA&PROJSTATUS=NPC&AWARDTYPE=CGL.

5 The city wage tax, the largest locally generated revenue source, had been undergoing incremental rate cuts since the mid-1990s. The current rates, at about 3.9 percent for residents and 3.5 percent for commuters, are the highest such municipal, flat-rate levies in the country. Joseph Henchman, "County and City Income Taxes Clustered in States with Poor Tax Climates," Tax Foundation (2008), http://taxfoundation.org/article/county-and-city-income-taxes-clustered-states-poor-tax-climates; Stephanie Marudas, "Good News: Lower Philly Wage Taxes in 2009," WHYY (2009), http://whyy.org/cms/itsourcity/2009/01/21/good-news-lower-philly-wage-taxes-in-2009.

6 Philadelphia is one of 20 cities among those studied that has responsibilities for social services.

7 City of Philadelphia, Pennsylvania, *Supplemental Report of Revenues & Obligations, Fiscal Year Ended June 30, 2010* (2010). p. 3, http://www.phila.gov/finance/pdfs/supplementalfy10_2_18_11.pdf; City of Philadelphia, Pennsylvania, *Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2010* (2010), p. 3, http://www.phila.gov/reports/CAFR_2010_GAGAS_20110923.pdf.

8 Mike Dunn, "Huge Philadelphia Property Tax Hike Draws Near," *CBS Philly*, Nov. 17, 2010, http://philadelphia.cbslocal.com/2010/11/17/phila-property-tax-hike-looms; Jeff Shields, "Philadelphia Must Justify Property-tax Projections, Katz Says," *Philly.com*, March 31, 2011, http://articles.philly.com/2011-03-31/news/29366291_1_pica-board-property-tax-hike-pennsylvania-intergovernmental-cooperation-authority; Mark Robyn, "Philadelphia Sales Tax Increases Tomorrow; State Debates Expanding the Sales Tax Base," Tax Foundation, *The Tax Policy Blog*, Oct. 7, 2009.,http://taxfoundation.org/blog/philadelphia-sales-tax-increases-tomorrow-state-debates-expanding-sales-tax-base.

9 Throughout the country, states have varying regulations on how to intervene in local government fiscal distress. For example, New York City was required to submit financial data to New York State. The Pew Charitable Trusts, "The State Role in Local Government Financial Distress," http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_State_Role_in_Local_Government_Financial_Distress.pdf.

10 The General Assembly of Pennsylvania, House Bill No. 209, *Pennsylvania Intergovernmental Cooperation Authority Act*, 1991, http://www.picapa.org/docs/OTH/PICA_Act.pdf.

11 For more information and analysis on the state of retirement funding in the 30 cities, see The Pew Charitable Trusts, American cities project, *Cities Squeezed by Pension and Retiree Health Care Shortfalls* (March 2013), http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_city_pensions_brief.pdf.

12 Teacher pension liabilities were only included for cities that reported those obligations in their comprehensive annual financial reports, specifically New York, Philadelphia, and the District of Columbia.

13 Bob Warner, "Tensions Rising over Philadelphia's Lack of Municipal Union Contracts," *Philly.com*, March 9, 2013, http://articles.philly.com/2013-03-09/news/37564090_1_shannon-farmer-herman-j-pete-matthews-city-workers.

THE PEW CHARITABLE TRUSTS

This profile captures key financial trends before, during, and after the Great Recession for Phoenix, one of 30 cities examined by The Pew Charitable Trusts' American cities project. These profiles provide baselines for understanding the fiscal conditions of our cities and for ongoing research, analysis, and policy guidance.

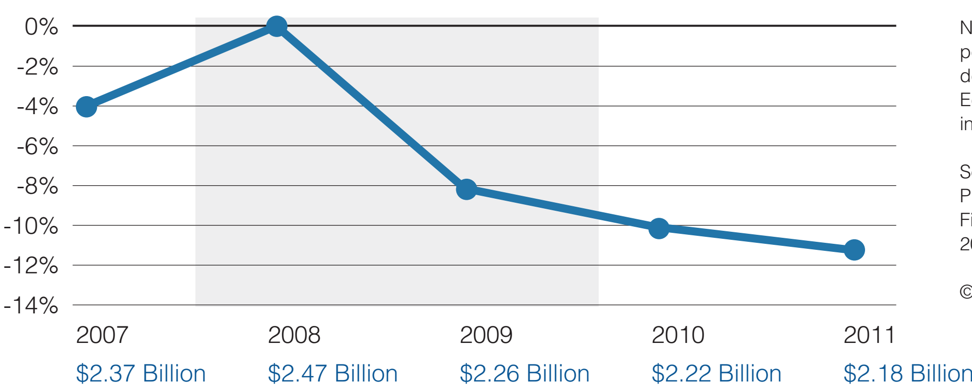
Phoenix

Fast-growing Phoenix was hit by sharp revenue declines

Two years after the end of the Great Recession, Phoenix's revenue was still dropping. Even as property tax receipts from new construction helped the city weather the collapse in existing real estate values, steep declines in intergovernmental aid and sales taxes led to a $283 million drop in revenue between 2008 and 2011. (See Figure 1.) Deep spending cuts resulted in the smallest city workforce in 40 years.[1] That reduced workforce, together with a $600 million pension reform, has improved Phoenix's long-term obligations picture.[2]

FIGURE 1

Phoenix Governmental Revenue, Percent Change From Pre-downturn Peak, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

Source: Pew calculations from Phoenix's Comprehensive Annual Financial Reports for fiscal 2007-11.

Stable property tax receipts were unable to compensate for steep drops in intergovernmental aid and sales tax revenue

Phoenix's intergovernmental aid and sales tax—the city's two largest revenue sources—dropped $131 million and $87 million, respectively, after adjusting for inflation, from 2008 to 2011. These declines came in spite of an influx of American Recovery and Reinvestment Act funds and a 2 percent sales tax on food for home consumption approved for a period of five years in 2010.[3]

A half-billion dollars of new construction balanced falling home prices, resulting in $5 million of growth in property tax revenue between 2008 and 2011.[4] But these modest gains were not enough to offset the yawning declines in other revenue sources.

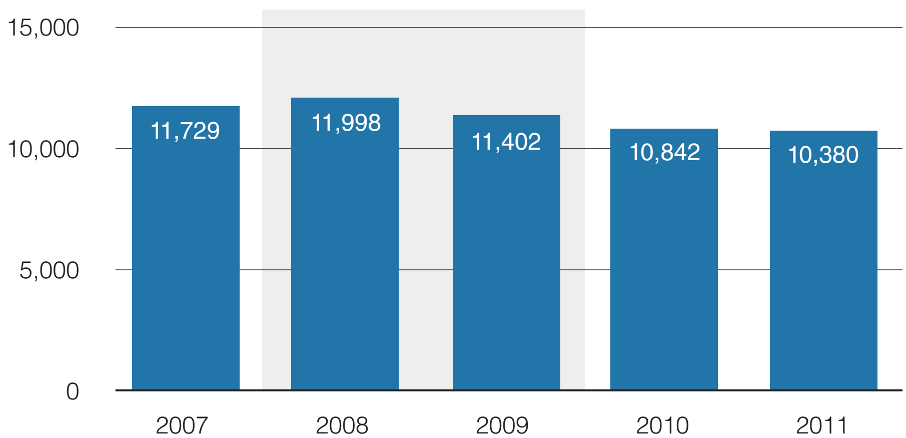
As revenue weakened, Phoenix created a task force to identify cuts and efficiencies

Between 2008 and 2011 as the effects of the Great Recession became evident, Phoenix decreased operating expenditures by 4 percent, or $68 million.[5] Almost all major operational areas declined, led by $32 million in cuts to parks, recreation, and cultural facilities, forcing closures and reducing maintenance. Nonprofits have taken over some shuttered buildings, while the Parks and Recreation Department's charitable trust foundation has sought to raise money to support programs and physical assets.[6]

Across departments, the city eliminated more than 1,600 full-time equivalent positions during the same period, about 13 percent of the city's total workforce.[7] (See Figure 2.) The city also negotiated wage and benefit concessions from public employees,[8] and reorganized city departments as proposed by a task force on innovation and efficiency.[9]

FIGURE 2

Phoenix Full-Time Equivalent Employees, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research.

Source: Pew calculations from Phoenix's Comprehensive Annual Financial Reports for fiscal 2007-11.

Managing the future: Phoenix managed its long-term obligations while addressing short-term deficits

Demand for services, investment decisions, and revenue performance driven by economic activity and demographic changes will shape Phoenix's fiscal future. Two long-term obligations which can be analyzed using the data available are pensions and retiree health care and other benefits.

Phoenix had assets covering 25 percent of retiree health care obligations in 2010, higher than many cities examined,[10] but its pension fund had $1.8 billion unfunded as of 2010—with assets covering 68 percent of liabilities. After years of deliberation, in March 2013, city voters passed pension changes directed at new city employees,[11] which are estimated to save $600 million over 23 years and include larger employee contributions, a higher retirement age, and an increased number of years for eligibility. The reforms also provided the city with more flexibility in both investment options and contribution levels to the plan.[12]

See Pew's 30-city interactive at pewstates.org/City-Fiscal-Conditions-Interactive for complete data.

Endnotes

1 City of Phoenix, "Employee Count Per Capita Smallest in 40 Years Even as City Continues to Grow" (Nov. 4, 2010), http://phoenix.gov/news/110410employees.html.

2 See the full study methodology at pewstates.org/City-Fiscal-Methodology for a detailed explanation of the terms used in this profile and view the underlying data at pewstates.org/City-Fiscal-Conditions-Interactive.

3 Phoenix's American Recovery and Reinvestment Act receipts totaled $429 million over the life of the legislation. City of Phoenix, "Phoenix Recovery," http://phoenix.gov/citygovernment/recovery/index.html; City of Phoenix, *Comprehensive Annual Financial Report, for the Fiscal Year Ended June 30, 2010* (2010), 214, http://phoenix.gov/webcms/groups/internet/@inter/@gov/@fin/@plan/documents/web_content/080339.pdf. The new tax contributed to a $60 million rebound in sales tax receipts in 2011. City of Phoenix, *Comprehensive Annual Financial Report, for the Fiscal Year Ended June 30, 2011* (2011), 7 and 222, http://phoenix.gov/webcms/groups/internet/@inter/@gov/@fin/@plan/documents/web_content/069315.pdf.

4 City of Phoenix, *Comprehensive Annual Financial Report, for the Fiscal Year Ended June 30, 2009* (2009), III, http://phoenix.gov/webcms/groups/internet/@inter/@gov/@fin/@plan/documents/web_content/080340.pdf.

5 Moody's Investors Service, "Moody's Assigns Aa1 Rating and Stable Outlook to City of Phoenix, Arizona's General Obligation Bonds, Series 2012," new issue (May 10, 2012), https://www.moodys.com/research/MOODYS-ASSIGNS-Aa1-RATING-AND-STABLE-OUTLOOK-TO-CITY-OF--PR_245589; City of Phoenix, "City Manages Two Years of Budget Deficits; Zero Deficits Projected for 2012–13" (Jan. 17, 2012), http://phoenix.gov/news/011712zerodeficit.html.

6 Phoenix Parks Foundation, *Strategic Plan 2011-2013: Enhancing Phoenix's Fun Places and Great Spaces*, http://www.northstarinternet.com/phxparksfoundation/wp-content/uploads/Strategic_Plan_rev-7-5-2012.pdf.

7 City of Phoenix, *Comprehensive Annual Financial Report, for the Fiscal Year Ended June 30, 2011*, 250.

8 Scott Wong, "City-Employees Union Agrees to Concessions," *Arizona Republic* (March 4, 2010), http://www.azcentral.com/community/ahwatukee/articles/20100304City-employees-union-concessions.html.

9 "Organizational Review—the third year of city departments looking closely at organizational structure and operations has resulted in removal of supervisory layers, increased span of control and the elimination of management positions at twice the rate of positions overall; in the first two reviews, the city saved $9.9 million." City of Phoenix, "City Connection" (Oct. 24, 2012), 1, http://employee.phoenix.gov/webcms/groups/extranet/@extra/@pio/@cityconn/documents/web_content/cc102412.pdf; David Cavazos, city manager, Phoenix, "Spending Less and Creating a Smaller, More Efficient Government," International City/County Management Association, http://icma.org/en/Article/101925/Spending_Less_and_Creating_a_Smaller_More_Efficient_Government.

10 For more information on and analysis of the state of retirement funding in the 30 cities, see The Pew Charitable Trusts, American cities project, *Cities Squeezed by Pension and Retiree Health Care Shortfalls* (March 2013), http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_city_pensions_brief.pdf.

11 Police, firefighters, and elected officials are part of state-administered pension plans and are not covered by city employee plans. Lynh Bui, "Delay of Phoenix Pension-reform Vote Gets Mixed Reaction," *Arizona Republic* (June 22, 2012), http://www.azcentral.com/community/phoenix/articles/2012/06/21/20120621timing-phoenix-pension-reform-vote-gets-mixed-reaction.html; and Dustin Gardiner, "Early Returns Suggest Phoenix Voters Pass Pension Reforms," *Arizona Republic* (March 13, 2013), http://www.azcentral.com/community/phoenix/articles/20130311phoenix-voters-pension-reforms.html.

12 Monica Alonzo, "Pension Reform: Phoenix Voters Adopt Changes Expected to Save Taxpayers Nearly $600 Million Over Next Two Decades," *Phoenix New Times* (March 13, 2013), http://blogs.phoenixnewtimes.com/valleyfever/2013/03/pension_reform_phoenix_voters.php.

This profile captures key financial trends before, during, and after the Great Recession for Pittsburgh, one of 30 cities examined by The Pew Charitable Trusts' American cities project. These profiles provide baselines for understanding the fiscal conditions of our cities and for ongoing research, analysis, and policy guidance.

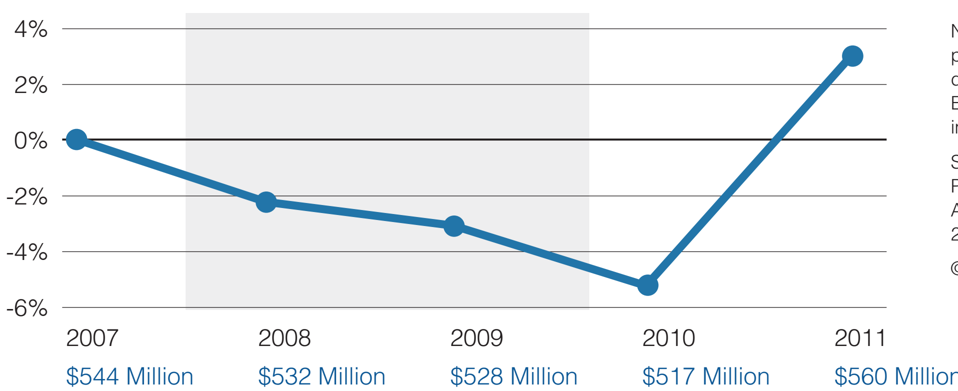
Pittsburgh

Pittsburgh's revenue rebounded because of an increase in intergovernmental aid in 2011, but fiscal concerns remain

Pittsburgh's revenue declined from 2007 to 2010, but rebounded from the Great Recession in 2011 to surpass the previous peak. (See Figure 1.) Yet financial challenges remain. An infusion of intergovernmental aid, growth in non-tax revenue, and increased income tax collections drove 2011 revenue 3 percent higher than the pre-recession high point, reached in 2007. Adding to the city's improving fiscal picture, operating spending dropped 10 percent between 2010 and 2011, largely because of cuts to public safety. Still, underfunded commitments to retirees could be a source of budget pressure in the future.[1]

FIGURE 1

Pittsburgh Governmental Revenue, Percent Change From Pre-downturn Peak, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

Source: Pew calculations from Pittsburgh's Comprehensive Annual Financial Reports for fiscal 2007-11.

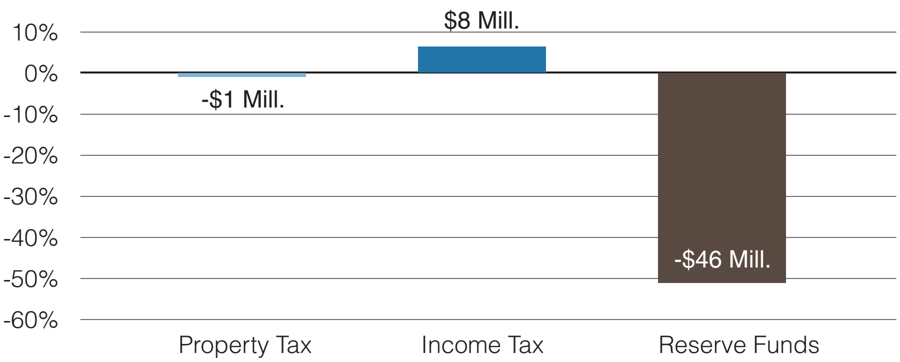
Income taxes prevented a deeper revenue dip through 2010

Pittsburgh's revenue bottomed out in 2010. The losses came largely from declines in deed transfer taxes and planned, gradual cuts in parking and business-privilege taxes.[2] Those three levies together declined $17 million between 2007 and 2010, after adjusting for inflation. Notably, unlike most of the other cities studied, Pittsburgh's property tax collections also declined. But growth in taxes on income, which increased $8 million over the same period, prevented a steeper overall revenue drop.

The city tapped its reserves to provide a cushion against declining revenue, drawing down just over half of its contingency funds between 2007 and 2010. (See Figure 2.) This helped Pittsburgh cover rising operating expenditures. Public safety, already Pittsburgh's largest spending area, grew $72 million.

FIGURE 2

Key Drivers of Change in Pittsburgh's Revenue and Reserves, 2007-10



Note: Reserve funds are represented by the unreserved general fund balance as a percent of total general fund revenues. Amounts are in 2011 dollars.

Source: Pew calculations from Pittsburgh's Comprehensive Annual Financial Reports for fiscal 2007-11.

One-time state and federal aid, income taxes, and spending cuts helped Pittsburgh rebound in 2011

Funding from other governments helped Pittsburgh dig out from its revenue hole and to ultimately exceed pre-recession levels in 2011. Intergovernmental aid, a source largely out of the city's control, increased $24 million from 2010 to 2011. Specifically, Pittsburgh received more grants in 2011 for general government, public safety, and highways and streets than it had a year earlier.[3]

Income tax collections continued to grow steadily from 2010 to 2011, overtaking property taxes as Pittsburgh's largest revenue source. Increasing employment in the Pittsburgh metropolitan area and an extra 2 percent wage tax collection for the public school district drove this revenue to a high of $143 million.[4]

As revenue increased, the city cut expenditures. Public safety spending dropped $38 million in 2011, savings the city credited mainly to the renegotiation of its contract with firefighters.[5] In addition, housing and economic development spending was cut nearly in half, dropping from $27 million to $14 million, while public works and transportation expenditures dipped from $81 million to $71 million.

Managing the future: Pittsburgh built its reserves and limited new debt for capital projects, but future financial pressure remains

Spending commitments, demand for services, and revenue performance will be key factors in Pittsburgh's future fiscal health. Several long-term factors of financial health, which can be analyzed using the data available, include pensions and retiree health care and other benefits, and reserve levels.

Revenue growth and spending cuts allowed Pittsburgh to add nearly $20 million to its reserves in 2011.[6] Further, a shift to a "pay-as-you-go" model to fund capital construction needs without taking on new debt, as well as a refinancing of two bonds, resulted in lower debt service.[7] Both developments have contributed to an upgrade of the city's bond rating.[8]

Pension obligations, however, remain a concern. In 2010, Pittsburgh had just 39 percent of the funds necessary to cover future liabilities even after the state threatened to integrate the municipal pension plans with the state system. To avoid this forced takeover, Pittsburgh officials transferred money from the city's debt service fund and future parking tax revenue to its pensions to improve funding levels.[9]

See Pew's 30-city interactive at pewstates.org/City-Fiscal-Conditions-Interactive for complete data.

Endnotes

1 See the full study methodology at pewstates.org/City-Fiscal-Methodology for a detailed explanation of the terms used in this profile and view the underlying data at pewstates.org/City-Fiscal-Conditions-Interactive.

2 City of Pittsburgh, *Comprehensive Annual Financial Report, for the Year Ended December 31, 2010* (2010) pp. I-6, http://apps.pittsburghpa.gov/co/City_of_Pittsburgh_Popular_Annual_Financial_Report_for_Year_Ending_December_2010.pdf.

3 City of Pittsburgh, *Comprehensive Annual Financial Report, for the Year Ended December 31, 2010* (2010), p. 7; City of Pittsburgh, *Comprehensive Annual Financial Report, for the Year Ended December 31, 2011* (2011), p. 3, http://apps.pittsburghpa.gov/co/Popular_Annual_Financial_Report_for_FY_2011.pdf.

4 City of Pittsburgh, Department of Finance, *Tax Reference Booklet* (2011), http://www.city.pittsburgh.pa.us/finance/assets/forms/2011/11-tax-reference-booklet.pdf.

5 City of Pittsburgh, *Comprehensive Annual Financial Report, for the Year Ended December 31, 2011*, p. xiv.

6 Ibid, p. 7.

7 Moody's Investor Service, *Moody's Assigns A1 Rating to City of Pittsburgh's $125 Million G.O. Bonds of 2012; Revises Outlook to Stable from Negative.* New Issue,, Jan. 19, 2012; *Moody's Investor Service, Moody's Affirms City of Pittsburgh's (PA) G.O Rationg at A1 and Revises Outlook to Negative, Affecting $697.2 Million in Outstanding City Debt*, Nov. 23, 2010, https://www.moodys.com/research/MOODYS-AFFIRMS-CITY-OF-PITTSBURGHS-PA-GO-RATING-AT-A1-Rating-Update--RU_16750966.

8 City of Pittsburgh, *Comprehensive Annual Financial Report, for the Year Ended December 31, 2011*, p. 7.; Office of the Mayor, Luke Ravenstahl, *Pittsburgh Budget 2013*, (Sept. 24, 2012), http://apps.pittsburghpa.gov/mayor/2013-Complete-Operating-Budget.pdf. See also, Standard and Poor's, "Pittsburgh GO Debt Rating Raised Three Notches To 'A' On Improved Financial Profile," (June 27, 2013), http://www.standardandpoors.com/prot/ratings/articles/en/us/?articleType=HTML&assetID=1245353866633.

9 Moody's Investor Service, *Moody's Assigns A1 Rating to City of Pittsburgh's $125 Million G.O. Bonds of 2012*, Jan. 19, 2012, https://www.moodys.com/research/MOODYS-ASSIGNS-A1-RATING-TO-CITY-OF-PITTSBURGHS-125-MILLION--PR_235703; State of Pennsylvania, Act 44 (2009),obtained from Public Employee Retirement Commission, "Synopsis of Act 44 of 2009 (House Bill Number 1828), https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=6&ved=0CFoQFjAF&url=http%3A%2F%2Fwww.portal.state.pa.us%2Fportal%2Fserver.pt%2Fdocument%2F598409%2Fact_44_synopsis_pdf&ei=YD1cUdnDJvOz4APc4IH4Cg&usg=AFQjCNFwRiMx4sav_5NVICYoXUNEwqSs3A&sig2=KfdyyXzWFuwjSGPv2QFdBA&bvm=bv.44697112,d.dmg&cad=rja. For more information and analysis on the state of retirement funding in the 30 cities, see Pew'sAmerican Cities Issue Brief, *Cities Squeezed by Pension and Retiree Health Care Shortfalls*, (2013), http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_city_pensions_brief.pdf.

This profile captures key financial trends before, during, and after the Great Recession for Portland, OR, one of 30 cities examined by The Pew Charitable Trusts' American cities project. These profiles provide baselines for understanding the fiscal conditions of our cities and for ongoing research, analysis, and policy guidance.

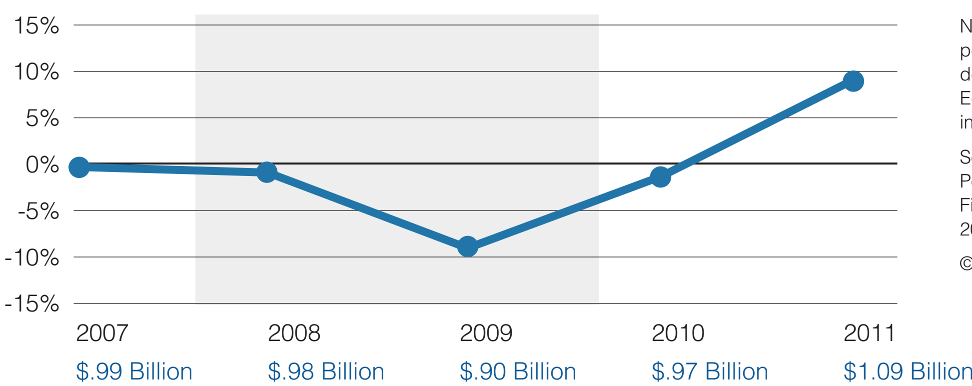
Portland, OR

Property taxes offset early revenue losses; then aid from the federal and state governments strengthened Portland's rebound from the Great Recession

Portland's fiscal rebound was already well under way in 2011, after property tax gains and reserve funds helped the city get through the worst of the Great Recession. Then, largely because of stimulus funds from the state and federal governments, the city's revenue exceeded its previous peak by 10 percent. (See Figure 1.) That revenue growth coincided with a rise in operating spending in 2011. But the city's growing annual bill for pension benefits may necessitate trade-offs among spending priorities or further revenue increases.[1]

FIGURE 1

Portland Governmental Revenue, Percent Change From Pre-downturn Peak, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

Source: Pew calculations from Portland's Comprehensive Annual Financial Reports for Ffiscal 2007-11.

Growing property tax receipts helped Portland weather the storm

Portland's revenue began falling early in the Great Recession and bottomed out as it ended in 2009. The losses came despite growth in property taxes. Charges and fees—which included charges for services, such as parks and recreation, and business licenses—declined $64 million and intergovernmental aid dropped $62 million during the period from 2007 to 2009.

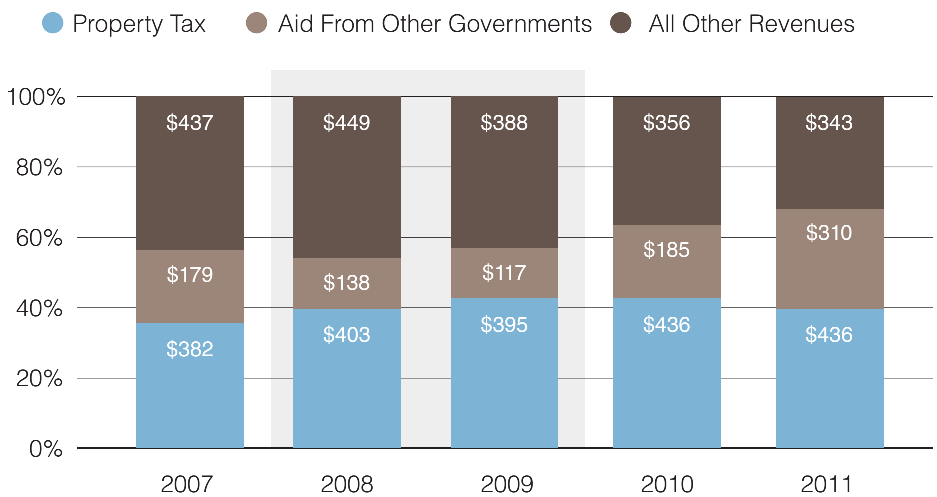
While the city reported staff cuts in the police bureau, overall spending on public safety, which also includes fire and emergency services, grew $28 million.[2] That growth was counterbalanced primarily by a decline in debt service payments, driving total operating spending down by $15 million during the period.

Reserves preserved spending as revenue rebounded

Beginning in 2009, after the city reached its revenue low point, Portland used about two-thirds of its reserves, or $90 million, to help mitigate the need to cut spending.[3] From there, total revenue improved as property taxes grew $42 million through 2011. In addition, during the same period, the city received a $193 million increase in aid from other governments, including both state stimulus and federal funds from the American Recovery and Reinvestment Act. (See Figure 2.) By 2011, Portland had surpassed its pre-downturn revenue.

FIGURE 2

Portland Share of Revenue by Category (in millions), 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in millions of 2011 dollars.

Source: Pew calculations from Portland's Comprehensive Annual Financial Reports for fiscal 2007-11.

As revenue recovered between 2009 and 2011, Portland's total operating spending increased 16 percent, with much of additional outlays used to pay down outstanding debt.[4] The city also began fast-tracking nearly $500 million of capital improvement projects to spur the local economy.[5] Housing and economic development spending also grew $101 million.

Managing the future: Pension liabilities grew through the recession

Demand for services, investment decisions, and revenue performance driven by economic activity and demographic changes will shape Portland's fiscal future. Two long-term obligations which can be analyzed using the data available are pensions and retiree health care and other benefits.

Portland's unfunded pension commitments increased during the Great Recession, growing by $1.5 billion between 2007 and 2010. In 2010, the city's main pension plan—a cost-sharing arrangement with the State of Oregon Public Employees Retirement System—was 87 percent funded.

A second plan, the Fire and Police Disability Retirement Plan,[6] has its obligations met on a pay-as-you-go basis by a perpetual local levy included in property taxes, which are capped by the state.[7] The cost of those retirement promises is expected to rise over time due to increasing numbers of retirees and longer life spans, and this could place significant pressure on future budgets by cutting into property tax revenue intended for other city services.[8]

See Pew's 30-city interactive at pewstates.org/City-Fiscal-Conditions-Interactive for complete data.

Endnotes

1 See the full study methodology at pewstates.org/City-Fiscal-Methodology for a detailed explanation of the terms used in this profile and view the underlying data at pewstates.org/City-Fiscal-Conditions-Interactive.

2 City of Portland, OR, *Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2009* (2009), p. 23, http://www.portlandoregon.gov/bfs/article/279250.

3 Josh Harwood, City Economist (Team Lead), pers. comm., January 7, 2013.

4 Large payments were made on the redevelopment bonds issued for the Central Eastside Industrial District ($66 million), North Macadam Urban Renewal Area ($66 million), Convention Center Area ($36 million), and Gateway Urban Renewal Area ($13 million). City of Portland, OR, *Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2011* (2011), pp. 156-157, http://library.oregonmetro.gov/files//cafr_10-11.pdf.

5 J. Baer, *Authorize Emergency Declaration for the Procurement of Projects Funded by the 2009 Local, State and Federal Economic Stimulus Program and Delegate Authority to the Purchasing Agent to Execute Contracts Funded Under the Program. Ordinance No. 182809* (2009), http://www.portlandonline.com/shared/cfm/image.cfm?id=275694; Mark Larabee, "Portland Will Spend $500 Million to Stimulate Local Economy," *The Oregonian—OregonLive.com*, Jan. 13, 2009, http://www.oregonlive.com/news/index.ssf/2009/01/portland_will_spend_500_millio.html.

6 In 2006, city voters approved reforms that placed new public safety hires in the state employee retirement system, rather than the dedicated police and firefighters plan, but the city's annual costs are still expected to continue rising until the last pre-2007 employees retire in 20 to 25 years.

7 Jane Kingston, City Controller, pers. comm., Jan. 7, 2013.

8 Moody's Investor Service, *Moody's Assigns Aa1 Rating to City of Portland, Oregon's Limited Tax Revenue Bonds, 2012 Series B*, New Issue, May 1, 2012, https://www.moodys.com/research/MOODYS-ASSIGNS-Aa1-RATING-TO-CITY-OF-PORTLAND-OREGONS-LIMITED--PR_244752 [CK]; Department of Revenue: Property Tax, "How Property Taxes Work in Oregon," Oregon.gov, http://www.oregon.gov/DOR/ptd/Pages/property.aspx#Tax_Limitation__Compression. The Oregon Constitution imposes a cap on property tax rates for municipalities. For more information and analysis on the state of retirement funding in the 30 cities, see Pew's American Cities Issue Brief, *Cities Squeezed by Pension and Retiree Health Care Shortfalls,* (2013), http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_city_pensions_brief.pdf.

This profile captures key financial trends before, during, and after the Great Recession for Riverside, CA, one of 30 cities examined by The Pew Charitable Trusts' American cities project. These profiles provide baselines for understanding the fiscal conditions of our cities and for ongoing research, analysis, and policy guidance.

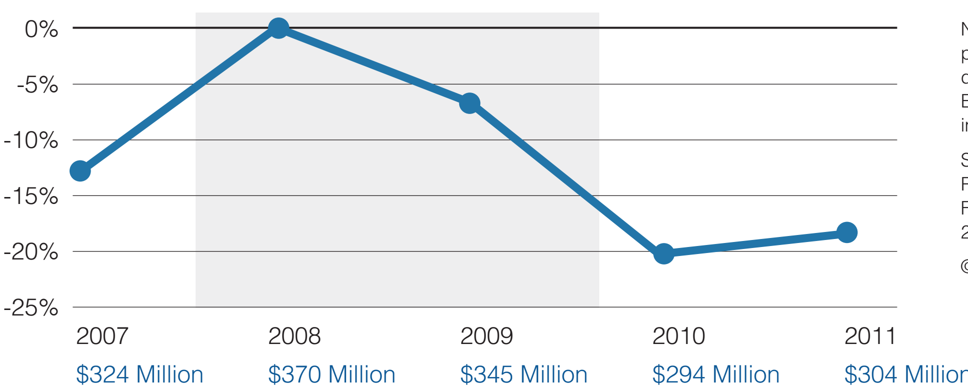
Riverside, CA

Riverside faced declining revenue, forcing cuts in key spending areas

As of 2011, Riverside's total revenue was well below the 2008 peak, and the city faced continuing financial challenges stemming from the Great Recession. California's "Inland Empire" metropolitan area endured cratering housing prices and high unemployment during the downturn, and as a result, revenue in the region's largest city, Riverside, fell 21 percent from 2008 to its 2010 low.[1] (See Figure 1.) Although the city responded by cutting spending on critical functions such as public safety, rising debt service payments outweighed reductions.[2]

FIGURE 1

Riverside Governmental Revenue, Percent Change from Pre-Economic Downturn Peak, 2007-2011



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

Source: Pew calculations from Riverside's Comprehensive Annual Financial Reports for Fiscal Years 2007-2011.

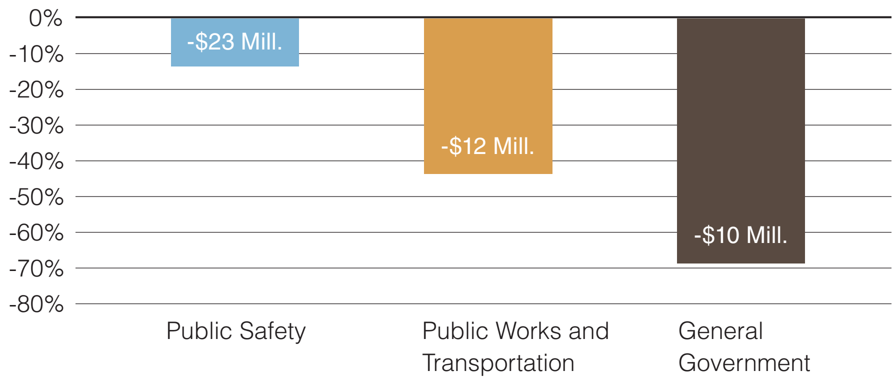
As revenue fell, Riverside made significant cuts and worked to improve its debt position

Between 2008 and 2010, total revenue dropped $76 million, after adjusting for inflation. Nontax revenue—mainly something the city termed "use of money and property"—represented the largest piece of the losses, falling $24 million. That was followed closely by a $21 million decline in intergovernmental aid, despite federal funding from the American Recovery and Reinvestment Act. Further, sales taxes fell $12 million as unemployment neared 15 percent, and property tax receipts declined $13 million, during the same period.[3]

To deal with revenue shortfalls, Riverside made deep cuts in several key areas between 2008 and 2010, including public safety ($23 million), public works and transportation ($12 million), and general government ($10 million). (See Figure 2.) Those reductions, however, were offset by temporary growth in debt service payments in 2010 and 2011, when the city refinanced bonds and addressed increasing redevelopment agency debt—saving money over the long-term by taking advantage of historically low interest rates.[4]

FIGURE 2

Key Drivers of Change in Riverside's Operating Expenditures, 2007-11



Note: Amounts are in 2011 dollars.

Source: Pew calculations from Riverside's Comprehensive Annual Financial Reports for fiscal 2007-11.

Officials drew down general fund reserves repeatedly during the recession to offset revenue declines from 2007 to 2010. But Riverside still managed to replenish its financial cushion by $13 million between 2010 and 2011. In 2012, the outgoing mayor, Ronald O. Loveridge, touted the city's fiscal strength, noting, "no city of our size in California has this kind of reserve."[5]

Managing the future: Riverside's pension contributions remained strong

Spending commitments, demand for services, and revenue performance are among key factors that will affect Riverside's future fiscal health. Two long-term obligations which can be analyzed using the data available are pensions and retiree health care and other benefits.

Riverside consistently paid the full, recommended annual contribution for its pensions, but its funding level still decreased from 95 percent in 2007 to 90 percent in 2010 due to increasing liabilities. The city's retiree health care obligations were unfunded in 2010, but the city has taken unique steps to manage its commitments. Most importantly, the city agreed to provide fixed cash payments to seven public sector unions, which in turn agreed to independently manage health care plans for eligible retirees.[6]

See Pew's 30-city interactive at pewstates.org/City-Fiscal-Conditions-Interactive for complete data.

Endnotes

1 The Inland Empire includes Ontario, Riverside, San Bernardino, and the surrounding areas. http://www.visitcalifornia.com/Explore/Inland-Empire.

2 See the full study methodology at pewstates.org/City-Fiscal-Methodology for a detailed explanation of the terms used in this profile and view the underlying data at pewstates.org/City-Fiscal-Conditions-Interactive.

3 City of Riverside, *Comprehensive Annual Financial Report, Year Ended June 30, 2010* (2010), ii, http://www.riversideca.gov/finance/cafr/2010.asp.

4 City of Riverside, *Comprehensive Annual Financial Report, Year Ended June 30, 2009* (2009), 25, http://www.riversideca.gov/finance/cafr/2009.asp; City of Riverside. *Comprehensive Annual Financial Report, Year Ended June 30, 2010*, p. 25; City of Riverside, *Comprehensive Annual Financial Report, Year Ended June 30, 2011* (2011) 25, http://www.riversideca.gov/finance/cafr/2011.asp. The increase in 2010 was largely because of a refinancing bond for pensions. City of Riverside, *Comprehensive Annual Financial Report, Year Ended June 30, 2009*, 47. The 2011 jump included another such bond and an increase in Redevelopment Agency debt service. See City of Riverside, *Comprehensive Annual Financial Report, Year Ended June 30, 2010*, 47; and City of Riverside, *Comprehensive Annual Financial Report, Year Ended June 30, 2011*, 25.

5 Mayor Ronald O. Loveridge, State of the City Address (Jan. 19, 2012), http://www.riversideca.gov/mayor/2012/StateoftheCity2012FinalSpeech.pdf

6 The seven bargaining units covered by the agreements are the Riverside City Fire Association, International Brotherhood of Electrical Workers General Trust, the Riverside Police Administrators' Association, the Riverside Police Association Sergeants Trust 1991, the Riverside Police Association Sergeants Trust 2006, Service Employees International Union General Trust, and the Service Employees International Union Refuse. Also, under an "implied rate subsidy" plan, retirees have the choice to take responsibility for their own care by enrolling in the same insurance plan as active employees and benefiting from the reduced costs associated with a younger and larger group. City of Riverside, *Comprehensive Annual Financial Report, Year Ended June 30, 2010*, 58. For more information on and analysis of the state of retirement funding in the 30 cities, see The Pew Charitable Trusts, American cities project, *Cities Squeezed by Pension and Retiree Health Care Shortfalls* (March 2013), http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_city_pensions_brief.pdf.

This profile captures key financial trends before, during, and after the Great Recession for Sacramento, one of 30 cities examined by The Pew Charitable Trusts' American cities project. These profiles provide baselines for understanding the fiscal conditions of our cities and for ongoing research, analysis, and policy guidance.

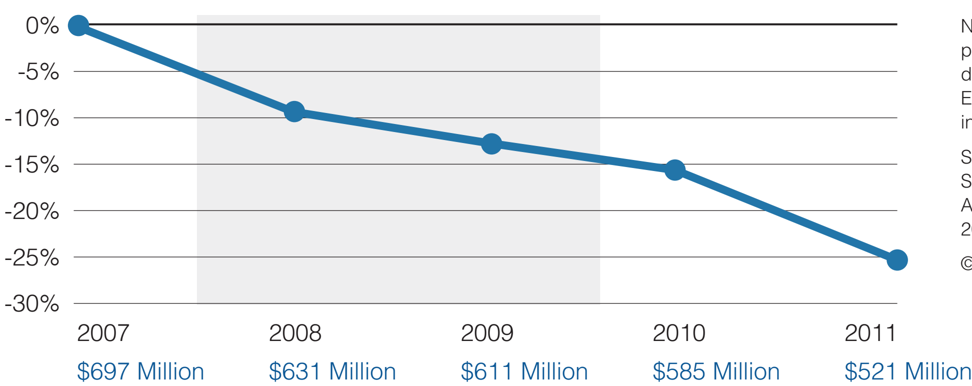
Sacramento, CA

Sacramento's revenue declined in the wake of the Great Recession and beyond

Two years after the end of the Great Recession, revenue was still dropping in Sacramento. Uniquely affected by state fiscal woes, California's capital city saw revenue fall sharply between 2007 and 2011, dropping 25 percent. (See Figure 1.) Reductions in spending over the same period were not enough to avoid persistent general fund operating deficits and the depletion of reserve funds that were all but fully tapped by 2011. On top of these struggles, growing pension obligations have kept Sacramento at risk of a credit downgrade.[1]

FIGURE 1

Sacramento Governmental Revenue, Percent Change From Pre-downturn Peak, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

Source: Pew calculations from Sacramento's Comprehensive Annual Financial Reports for fiscal 2007-11.

State government contraction led to across-the-board revenue declines that outpaced spending cuts

Some of the largest losses came from nontax revenue.[2] Income from interest, rents, concessions, and charges and fees together fell $93 million after adjusting for inflation.

Despite an influx of funds from the American Recovery and Reinvestment Act to the Sacramento region, intergovernmental aid to the city dropped $32 million between 2007 and 2011. The state government contracted during the Great Recession, with layoffs contributing to Sacramento's growing unemployment rate, which exceeded 12 percent by 2010.[3] Sales tax revenue dropped $12 million between 2007 and 2011.

Property tax collections—a strength before the recession—fell $22 million between 2007 and 2011, as the impact of the market affected valuations in 2009 and collections dropped sharply the following two years.[4]

Sacramento's operating spending decreased $40 million between 2007 and 2011 in response to the revenue shortfalls. The largest decline was in housing and economic development. Public safety cuts resulted in layoffs and the elimination of the vice, narcotics, financial crimes, and undercover gang squads in 2011; police officers also no longer responded to burglary, misdemeanor, or minor traffic accident calls as a result of reductions.[5] Other significant cuts in parks and recreation and public works and transportation led to layoffs, and city officials delayed development projects and closed pools and community centers. These cuts, however, were offset by increases in general government and debt service, and were not sufficient to overcome the revenue losses.[6]

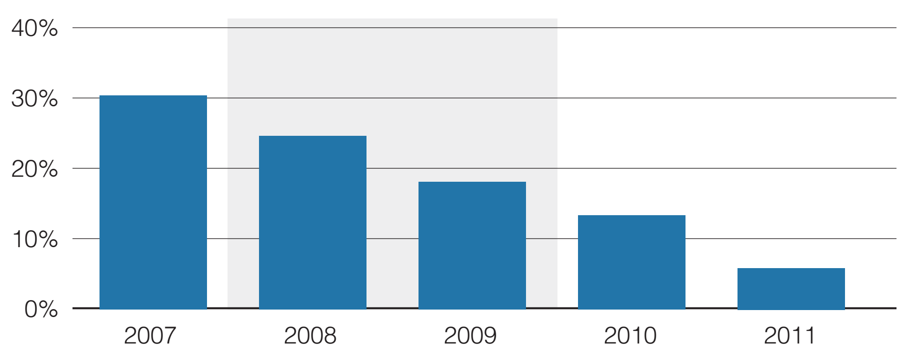
Managing the future: Few reserves remain, but Sacramento is focusing on meeting its commitments to retirees

Demand for services, investment decisions, and revenue performance driven by economic activity and demographic changes will shape Sacramento's fiscal future. Long-term factors of financial health, which can be analyzed using the data available, are pensions and retiree health care obligations and reserve levels.

Despite the spending cuts, the city ran consistent general fund operating deficits between 2007 and 2011. To close these gaps, the city repeatedly drew from its reserves, reducing its Economic Uncertainty Reserve Fund from 31 percent of general fund revenue in 2007 to just 6 percent in 2011—below the 10 percent ratio prescribed by city policy.[7] (See Figure 2.)

FIGURE 2

Sacramento Reserve Funds as a Percent of Total General Fund Revenue, 2007-11



Note: Reserve funds are represented by the unreserved general fund balance as a percent of total general fund revenues. Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research.

Source: Pew calculations from Sacramento's Comprehensive Annual Financial Reports for fiscal 2007-11.

Despite paying its annual pensions bill in full through 2010, the overall funding level decreased to 81 percent that year from 87 percent in 2007 because liabilities grew faster than assets. In June 2012, city officials reached an agreement requiring new firefighters to pay a share of their pension plans that was previously the city's responsibility.[8] And in early 2013, city officials indicated they would need to work with the police union on similar measures.[9]

See Pew's 30-city interactive at pewstates.org/City-Fiscal-Conditions-Interactive for complete data.

Endnotes

1 See the full study methodology at pewstates.org/City-Fiscal-Methodology for a detailed explanation of the terms used in this profile and view the underlying data at pewstates.org/City-Fiscal-Conditions-Interactive.

2 The largest portion of this category, contributions from property owners, includes bond proceeds from special districts; it declined $38 million between 2007 and 2011.

3 Southern California Association of Governments, *Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2010* (2010), 167, http://www.scag.ca.gov/publications/pdf/2010/FinancialReport063010.pdf.

4 Moody's Investors Service, "Moody's Affirms Aa2 Issuer Rating on City of Sacramento (CA); Stable Outlook Also Affirmed," rating update (2010), http://www.cityofsacramento.org/treasurer/public_finance/credit_rating/documents/Moodys_Rating_on_Sacramento_05282010.pdf.

5 Erica Goode, "Crime Increases in Sacramento After Deep Cuts to Police Force," *New York Times* (Nov. 3, 2012), http://www.nytimes.com/2012/11/04/us/after-deep-police-cuts-sacramento-sees-rise-in-crime.html.

6 Debt service payments were up largely because of a 2009 principal payment on debt by the Transportation and Development Fund to purchase a downtown rail yard for a brownfield development project. City of Sacramento, *Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2009* (2009), 8, http://www.sco.ca.gov/Files-ARD/CAFR/cafr09web.pdf; and Tony Bizjak, "Sacramento Still Liking Railyard Future Without Kings," *Sacramento Bee* (Feb. 26, 2013), http://www.sacbee.com/2012/04/23/4434181/sacramento-still-liking-railyard.html.

7 The General Fund Economic Uncertainty Reserve goal is to maintain 10 percent of general fund revenue; as of 2012, the level was 4 percent. City of Sacramento, *Proposed Budget, Fiscal Year 2011/2012* (2013), 20, http://www.cityofsacramento.org/finance/budget/documents/FY12ProposedBudget-Web.pdf.

8 Ryan Lillis, "Sacramento Firefighter Union Ratifies Labor Deal, Saving 44 Jobs," *Sacramento Bee* (March 25, 2012), http://blogs.sacbee.com/city-beat/2012/06/sacramento-firefighter-union-ratifies-labor-deal-saving-44-jobs.html.

9 Ryan Lillis, "Sacramento Sales Tax Hike to Boost Cops, Firefighters, Parks," *Sacramento Bee* (Feb. 26, 2013), http://www.sacbee.com/2013/02/10/5178578/sacramento-sales-tax-hike-to-boost.html. For more information on and analysis of the state of retirement funding in the 30 cities, see The Pew Charitable Trusts, American cities project, *Cities Squeezed by Pension and Retiree Health Care Shortfalls* (March 2013), http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_city_pensions_brief.pdf.

This profile captures key financial trends before, during, and after the Great Recession for San Antonio, one of 30 cities examined by The Pew Charitable Trusts' American cities project. These profiles provide baselines for understanding the fiscal conditions of our cities and for ongoing research, analysis, and policy guidance.

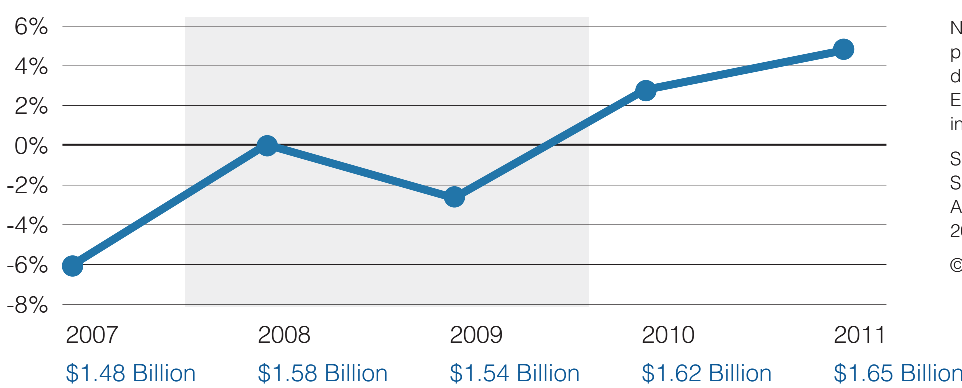
San Antonio

A post-recession revenue rebound allowed spending to grow without sacrificing reserves

San Antonio experienced a fiscal rebound after the Great Recession, as 2011 revenue exceeded its pre-downturn peak by 5 percent. (See Figure 1.) Growth in state aid, federal stimulus funds, and nontax sources—utility revenue and contributions—helped revenue bounce back from a small 2009 dip. That growth supported increased operating spending—including expenditures for public safety and social services and health—without compromising the city's well-funded reserves. San Antonio maintained its pension funding levels while also implementing plan changes to control future costs.[1]

FIGURE 1

San Antonio Governmental Revenue, Percent Change From Pre-downturn Peak, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

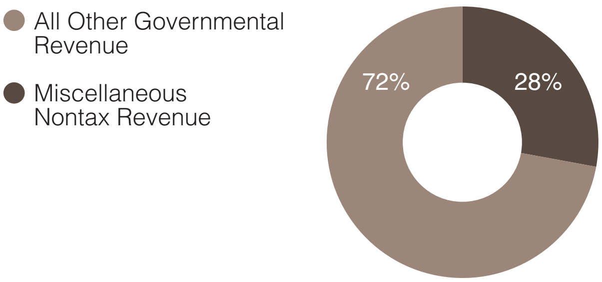
Source: Pew calculations from San Antonio's Comprehensive Annual Financial Reports for fiscal 2007-11.

Revenue from nontax sources and intergovernmental aid drove overall revenue growth

San Antonio's investment income from the nation's largest municipally owned energy utility was a key factor in its overall revenue growth. (See Figure 2.) Utility revenue grew from $285 million in 2009 to $310 million two years later, after adjusting for inflation. Contribution revenue more than tripled, from $31 million to $105 million, primarily because of the Convention Center Hotel Finance Corp., a local economic development entity. Aid from other governments grew from $237 million in 2009 to $308 million in 2011, in part because of increased grants from the American Recovery and Reinvestment Act.[2]

FIGURE 2

San Antonio Miscellaneous Nontax Revenue vs. Other Sources, 2011



Source: Pew calculations from San Antonio's Comprehensive Annual Financial Reports for fiscal 2007-11.

San Antonio's property tax revenue, meanwhile, dipped from a high of $420 million in 2009 to $398 million in 2011, mainly due to declines in property valuations associated with the nationwide housing crisis.[3] Charges for services also decreased $30 million.[4] But despite these revenue losses, total revenue increased $116 million between 2009 and 2011.

Public safety spending drove overall expenditure growth

The revenue growth from 2009 to 2011 allowed the city to boost operating spending by $73 million. San Antonio reallocated funds to public safety, its largest spending area, which increased from $518 million to $556 million as the city added 75 police officers and 73 firefighters and emergency medical personnel.[5]

Spending on debt service also grew, rising $27 million between 2009 and 2011. The budget for social services and health increased $44 million, largely because of new sanitation service initiatives.[6]

Not all spending grew, however. Housing and economic development outlays decreased $29 million, and public works and transportation expenditures dropped $12 million, partially offsetting growth in other categories.

Managing the future: Pension changes and funding discipline have helped San Antonio manage long-term obligations

Demand for services, investment decisions, and revenue performance driven by economic activity and demographic changes will shape San Antonio's fiscal future. Long-term factors of financial health, which can be analyzed using the data available, are pensions and retiree health care obligations and reserve levels.

San Antonio emerged from the economic downturn on strong footing with well-funded reserves and pensions. The city had $179 million in general fund reserves at the end of 2011, representing 20 percent of general fund revenue.[7]

Retiree health care liabilities were 33 percent funded in 2010, higher than in most other cities examined, and the city's pension liabilities were consistently funded above 85 percent from 2007 through 2010. San Antonio is one of many localities that participate in the Texas Municipal Retirement System cash balance plan for all city employees except police and firefighters. In 2010, the city eliminated the automatic cost-of-living increase for current retirees enrolled in the Texas system, reducing future pension liability.[8]

See Pew's 30-city interactive at pewstates.org/City-Fiscal-Conditions-Interactive for complete data.

Endnotes

1 See the full study methodology at pewstates.org/City-Fiscal-Methodology for a detailed explanation of the terms used in this profile and view the underlying data at pewstates.org/City-Fiscal-Conditions-Interactive.

2 City of San Antonio, *Comprehensive Annual Financial Report, Fiscal Year Ended September 30, 2009* (2009), 170, http://www.sanantonio.gov/ir/cafr/FY%202009%20CAFR.pdf; and City of San Antonio, *Comprehensive Annual Financial Report, Fiscal Year Ended September 30, 2010* (2010), 169, http://www.sanantonio.gov/ir/cafr/2010%20CAFR%20-%20COMPLETED.pdf.

3 City of San Antonio, *Five Year Financial Forecast, FY 2011–FY 2015* (2010), 5, http://www.sanantonio.gov/Portals/0/Files/budget/FiveYearForecast/FY2011-2015-Forecast.pdf.

4 The city identifies the following as examples of charges for services: "airport landing fees, solid waste collection and disposal fees, vacant lot clean up, and food establishment licenses." City of San Antonio, *Comprehensive Annual Financial Report, Fiscal Year Ended September 30, 2011* (2011), 40, http://www.sanantonio.gov/ir/cafr/FY%202011%20CAFR%20FINAL%20for%20Website.pdf.

5 Ibid., 266.

6 The city said its spending on sanitation increased $12 million in 2011 primarily because of three grants received under the American Recovery and Reinvestment Act. Those grants were for the Weatherization Assistance Program, Energy Efficiency Block Grant, and the Retrofit Ramp Up Program. Ibid., 6.

7 Pew also estimates the number of days that the city could continue to operate its general fund budget solely from reserve funds.

8 Moody's Investors Service, "Moody's Has Assigned a Aaa Rating to the City of San Antonio's [TX] $171.795 Million General Improvement Bonds, Series 2012, $27.46 Million Combination Tax and Revenue Certificates of Obligation, Series 2012 and $18.105 Million Tax Notes, Series 2012," new issue (July 26, 2012), https://www.moodys.com/research/Moodys-has-assigned-a-Aaa-rating-to-the-City-of--PR_251766. For more information on and analysis of the state of retirement funding in the 30 cities, see The Pew Charitable Trusts, American cities project, *Cities Squeezed by Pension and Retiree Health Care Shortfalls*, issue brief (March 2013), http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_city_pensions_brief.pdf.

This profile captures key financial trends before, during, and after the Great Recession for San Diego, one of 30 cities examined by The Pew Charitable Trusts' American cities project. These profiles provide baselines for understanding the fiscal conditions of our cities and for ongoing research, analysis, and policy guidance.

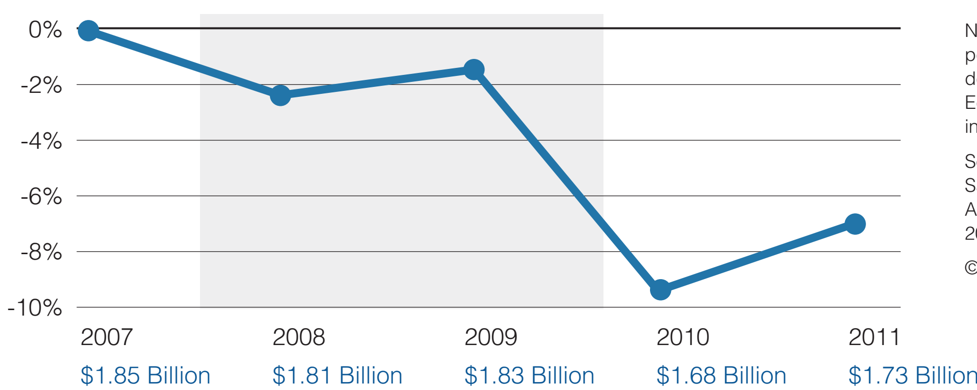
San Diego

Declining revenue led to spending cuts in San Diego

By 2011, San Diego's revenue had failed to return to the peak it reached before the Great Recession, and the city faced continuing financial challenges. Despite property tax growth, revenue fell 9 percent from the 2007 high point to the 2010 low, primarily because of losses in sales tax and nontax revenue. (See Figure 1.) Operating spending rose during that period, but the city ultimately cut expenditures in 2010 and 2011. Although San Diego has taken steps to address its long-term obligations, voter-approved pension reforms are being challenged in court.[1]

FIGURE 1

San Diego Governmental Revenue, Percent Change From Pre-downturn Peak, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

Source: Pew calculations from San Diego's Comprehensive Annual Financial Reports for fiscal 2007-11.

Declines in sales tax collections and intergovernmental aid drove revenue losses

Total revenue fell by $176 million between the 2007 peak and the 2010 trough after adjusting for inflation. Declining sales tax receipts were the main cause, falling an inflation-adjusted $86 million. Nontax revenue decreased $76 million, largely because of lower revenue from private sources and the use of money and property.[2] Intergovernmental aid also fell $39 million, even with an infusion of federal stimulus funds from the American Recovery and Reinvestment Act. Despite a housing crisis in California, property tax revenue in San Diego grew $41 million from 2007 to 2010, but this was not enough to offset steep losses in other revenue streams.

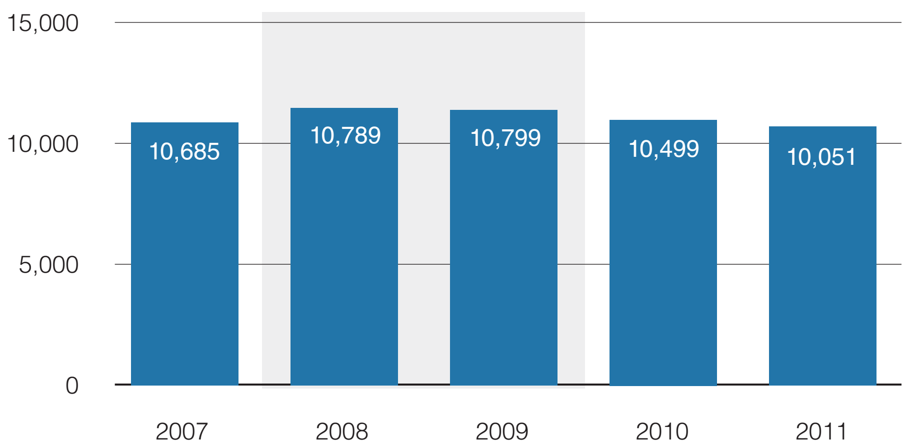
Spending grew as revenue declined, and cuts were implemented in 2011

Even as revenue contracted, operating spending increased 9 percent, caused primarily by a $116 million bump in general government expenditures.[3] At the same time, spending on parks, recreation, and cultural facilities grew $39 million, and outlays on public safety, San Diego's largest budget category, rose $7 million.

After the city's revenue hit bottom, officials cut spending in 2011 by eliminating more than 1,700 positions, including more than 300 in public safety,[4] negotiating a 6 percent employee compensation cut, and introducing some city services to competitive bidding.[5] (See Figure 2.)

FIGURE 2

San Diego Full-Time Equivalent Employees, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research.

Source: Pew calculations from San Diego's Comprehensive Annual Financial Reports for fiscal 2007-11.

In addition to the spending cuts, San Diego also used a series of midyear and one-time legislative adjustments.[6] For example, in 2011, contributions to general fund reserves were deferred, freeing up revenue.

Managing the future: Reforms in long-term liabilities aimed to address fiscal concerns

Demand for services, investment decisions, and revenue performance driven by economic activity and demographic changes will shape San Diego's fiscal future.[7] Long-term obligations that can be analyzed using the data available are pensions and retiree health care and other benefits.

Although the city made its annual recommended pension contributions, ballooning liabilities passed $6.5 billion in 2010, leaving the city far short of full funding. Changes put in place in 2009 were followed by a more expansive 2012 referendum that drew national attention.[8] Although legal challenges are pending as of press time, all new employees except police will be enrolled in defined-contribution plans, which operate like private-sector 401(k) plans rather than traditional defined-benefit plans that guarantee pension checks for the full period of retirement.[9] Pension calculations for current employees were changed to use a salary level frozen in place until 2018, rather than actual final salaries.[10]

Retiree health care obligations also continued to grow, exceeding the billion-dollar mark with just 6 percent of liabilities funded in 2010. In early 2012, the city and unions agreed on benefits changes that are expected to save $714 million over 25 years. Officials called the deal the largest cost-savings measure ever implemented by the city.[11]

See Pew's 30-city interactive at pewstates.org/City-Fiscal-Conditions-Interactive for complete data.

Endnotes

1 See the full study methodology at pewstates.org/City-Fiscal-Methodology for a detailed explanation of the terms used in this profile and view the underlying data at pewstates.org/City-Fiscal-Conditions-Interactive.

2 Revenue from private sources includes funds from the Facilities Benefit Assessment Credit program, which allows capital assets to be financed jointly by the city and private developers, who are compensated with credits toward future permit fees. City of San Diego, *Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2007* (2007), 14, http://www.sandiego.gov/comptroller/pdf/reports/cafr_2007.pdf.

3 City of San Diego, *Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2010* (2010), 38, http://www.sandiego.gov/comptroller/pdf/reports/cafr_2010.pdf.

4 Megan Burks, "How Budget Cuts Have Forced SD's Hand on Gang Policing," Voice of San Diego (March 15, 2013), http://voiceofsandiego.org/2013/03/15/how-budget-cuts-have-forced-sds-hand-on-gang-policing.

5 Street sweeping, information technology support, fleet maintenance, and landfill operations were among the areas opened for competitive bidding by outside providers. To date, city employees have won at least four bids by identifying additional efficiencies. Craig Gustafson, "Sanders: City Finance Problems Will End," *San Diego Union-Tribune* (Jan. 11, 2012), http://www.utsandiego.com/news/2012/jan/11/sd-mayor-city-finance-problems-will-end; City of San Diego, *Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2009* (2009), http://www.sandiego.gov/comptroller/pdf/reports/cafr_2009.pdf; Jen Lebron Kuhney, "City Workers Win Bid for Fleet Maintenance," *San Diego Union-Tribune* (Oct. 13, 2011), http://www.utsandiego.com/news/2011/oct/13/city-workers-win-bid-for-fleet-maintenance; and Jen Lebron Kuhney, "S.D. City Workers Win Another Job Bid," *San Diego Union-Tribune* (July 21, 2012), http://www.utsandiego.com/news/2012/jul/21/tp-sd-city-workers-win-another-job-bid.

6 City of San Diego, Fiscal Year 2011 Adopted Budget, Appendix: Legislative Actions, 336, http://www.sandiego.gov/fm/annual/fy11/index.shtml.

7 For more information on and analysis of the state of retirement funding in the 30 cities, see The Pew Charitable Trusts, American cities project, *Cities Squeezed by Pension and Retiree Health Care Shortfalls* (March 2013), http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_city_pensions_brief.pdf.

8 Catherine Saillant and Tony Perry, "2 Big Cities OK Cuts to Worker Pension Costs," *Los Angeles Times* (June 7, 2012), http://articles.latimes.com/2012/jun/07/local/la-me-pensions-20120607.

9 State of California Public Employment Relations Board, *San Diego Municipal Employees Association, Deputy City Attorneys Association of San Diego, American Federation of State, County and Municipal Employees Local 127, and San Diego City Firefighters Local 145 v. City of San Diego* (Feb. 11, 2013), Case Nos. LA-CE-746-M, LA-CE-752-M, LA-CE-755-M, LA-CE-758-M, http://www.cpf.org/go/cpf/?LinkServID=D6241EE5-1CC4-C201-3E28D8F610AA72E5.

10 San Diego's Proposition B charter amendment passed with 66 percent of the vote June 5, 2012. City of San Diego, Proposition B: Amendments to the San Diego City Charter Affecting Retirement Benefits, http://www.sandiego.gov/city-clerk/elections/city/pdf/retirementcharteramendment.pdf.

11 Craig Gustafson, "City Retiree Health Care Deal Could Save $714M," *San Diego Union-Tribune* (Jan. 24, 2012), http://www.utsandiego.com/news/2012/jan/24/city-retiree-health-benefit-overhauled.

This profile captures key financial trends before, during, and after the Great Recession for San Francisco, one of 30 cities examined by The Pew Charitable Trusts' American cities project. These profiles provide baselines for understanding the fiscal conditions of our cities and for ongoing research, analysis, and policy guidance.

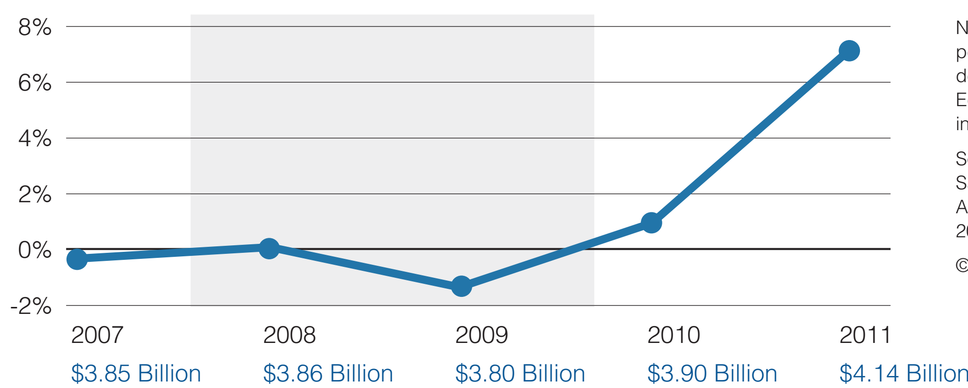
San Francisco

Revenue grew while San Francisco controlled spending and long-term obligations

San Francisco's 2011 revenue surpassed its pre-downturn peak by 7 percent, signaling a fiscal rebound from the Great Recession.[1] (See Figure 1.) Three major categories of revenue—property taxes, state and federal funds, and other taxes—all increased between 2009 and 2011. But even though revenue was growing, operating spending remained flat during this period. As a result, reserves were mostly replenished in 2011, and city pension benefits remained nearly fully funded. At the same time, voters approved changes to control costs for other retiree benefits.[2]

FIGURE 1

San Francisco Governmental Revenue, Percent Change From Pre-downturn Peak, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

Source: Pew calculations from San Francisco's Comprehensive Annual Financial Reports for fiscal 2007-11.

Revenue rebounded because of increased tax rates on property and real estate transactions

San Francisco's rebound was driven in part by its property tax. Collections grew $79 million from the 2009 revenue low point to 2011, fueled by a rate increase and the city's strong housing market.[3] In addition, other local taxes grew $108 million primarily because of a 2008 voter-approved increase in the transfer tax rate on all real estate transactions greater than $5 million.[4]

Aid from other governments increased $123 million, after adjusting for inflation, in the same time frame because of increases in federal contributions, including grants to the city under the American Recovery and Reinvestment Act.

San Francisco drew down reserves and cut spending to address revenue shortfalls

As San Francisco's revenue declined heading into the Great Recession, the city drew down 56 percent of its reserves to cover costs. Between 2009 and 2011, San Francisco stopped using reserves and decreased its operating spending by $15 million. (See Figure 2.)

The city reduced social service and health activities, which were the consolidated city-county government's largest expenditure area, by $38 million.[5] These cuts included eliminating 327 full-time community health employees and 150 human welfare and neighborhood development employees.[6] Aid payments and assistance for human welfare and neighborhood development were also reduced.[7] Public works and transportation expenditures decreased $27 million. Parks, recreation, and cultural facilities spending dipped $10 million.

At the same time, however, debt service payments increased from $213 million in 2009 to $255 million in 2011, and San Francisco increased spending on public safety by $9 million.

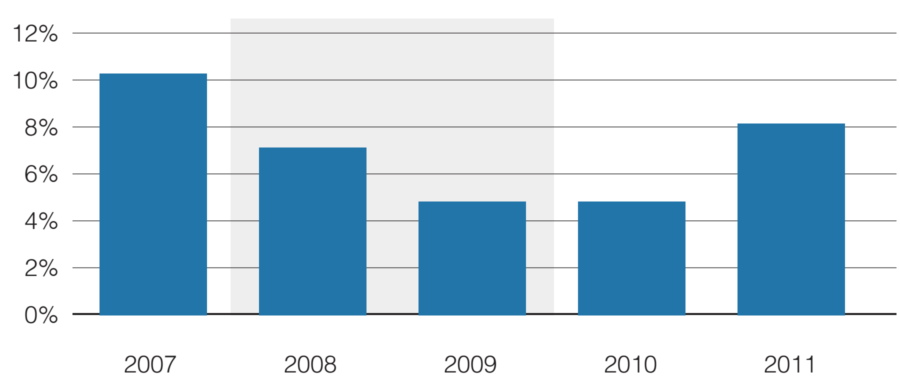
Managing the future: Pension changes and a new reserves policy helped to shore up the city's fiscal future

Demand for services, investment decisions, and revenue performance driven by economic activity and demographic changes will shape San Diego's fiscal future. Long-term obligations that can be analyzed using the data available are pensions and retiree health care and other benefits.

As a result of San Francisco's significant drawdown of reserves, San Francisco's Board of Supervisors adopted a policy in 2010 that requires automatic funding of dedicated reserves when certain fiscal conditions are met.[8] This policy, combined with the spending cuts, allowed the city to replenish its reserves to $243 million in 2011, most of the way back to pre-downturn levels.

FIGURE 2

San Francisco Reserve Funds as a Percent of Total General Fund Revenue, 2007-11



Note: Reserve funds are represented by the unreserved general fund balance as a percent of total general fund revenues. Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research.

Source: Pew calculations from San Francisco's Comprehensive Annual Financial Reports for fiscal 2007-11.

The city's pension system was almost fully funded in 2010, though its 91 percent funding ratio that year was down noticeably from 2007. Furthermore, other benefits—primarily health care—continued to be a challenge.[9] In 2010, assets covered less than 1 percent of $4.4 billion in retiree health care liabilities. In 2011, however, city voters approved a measure that increased the employee contribution rate and required new employees to work 20 years before becoming fully eligible.[10] These changes will help slow the growth of these obligations.

See Pew's 30-city interactive at pewstates.org/City-Fiscal-Conditions-Interactive for complete data.

Endnotes

1 Pew's preliminary review of 2012 data, not yet available for all 30 cities studied, indicates San Francisco's rebound continued into 2012.

2 See the full study methodology at pewstates.org/City-Fiscal-Methodology for a detailed explanation of the terms used in this profile and view the underlying data at pewstates.org/City-Fiscal-Conditions-Interactive.

3 The property tax rate increased from 1.159 to 1.1718 percent. City and County of San Francisco, *Comprehensive Annual Financial Report, for the Year Ended June 30, 2012* (2012), ii, http://www.sfcontroller.org/modules/showdocument.aspx?documentid=3923; and City and County of San Francisco, Tax Rate History (2012), 1, http://sfcontroller.org/Modules/ShowDocument.aspx?documentid=250.

4 The property transfer tax rate increased from 0.75 to 1.5 percent for all transactions greater than $5 million. This is separate from the property tax rate, which is assessed on all property, not just properties that are sold in a given year. City and County of San Francisco, *Comprehensive Annual Financial Report, for the Year Ended June 30, 2011* (2011), 11, http://www.sfcontroller.org/index.aspx?page=467.

5 Social service and health functions are typically the domain of county governments, and 10 of the 30 cities examined did not include social service or health expenditures in their annual reporting.

6 City and County of San Francisco, *Comprehensive Annual Financial Report, for the Year Ended June 30, 2011*, 221.

7 Ibid, 12.

8 *Ordinance Amending the San Francisco Administrative Code by Adding Section 10.60, to Adopt a Binding Financial Policy Under Charter Section 9.120 Created a General Reserve and a Budget Stabilization Reserve and Providing Rules for Deposits to and Withdrawals From Such Funds* (2010), http://www.sfbos.org/ftp/uploadedfiles/bdsupvrs/ordinances10/o0091-10.pdf.

9 San Francisco, like Los Angeles, is one of the few cities with a requirement to fully fund its actuarially recommended contribution each year. For more information on and analysis of the state of retirement funding in the 30 cities, see The Pew Charitable Trusts, American cities project, *Cities Squeezed by Pension and Retiree Health Care Shortfalls* (March 2013), http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_city_pensions_brief.pdf.

10 Judy Lin, "Cost of Public Retiree Health Care Soars in Calif.," Associated Press, *San Diego Union-Tribune* (April 21, 2012), http://www.utsandiego.com/news/2012/apr/21/cost-of-public-retiree-health-care-soars-in-calif; and League of Women Voters of San Francisco, "Proposition C—City Retirement and Health Care Benefits," *Voters' Guide* (2011), http://lwvsf.org/pages/PropositionC_2011.html. Proposition C passed with 69 percent of the vote in November 2011.

This profile captures key financial trends before, during, and after the Great Recession for Seattle, one of 30 cities examined by The Pew Charitable Trusts' American cities project. These profiles provide baselines for understanding the fiscal conditions of our cities and for ongoing research, analysis, and policy guidance.

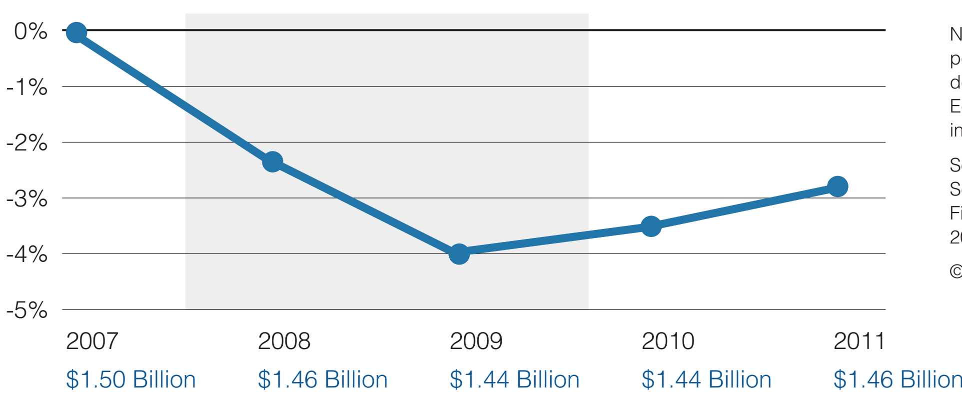
Seattle

Seattle's revenue bottomed out in 2009 and had not fully recovered by 2011

As of 2011, Seattle's revenue was still far from its pre-downturn peak, leaving the city with continuing financial challenges two years after the end of the Great Recession in 2009. (See Figure 1.) Revenue hit bottom in 2009 because of declines in business, excise, and sales taxes as well as nontax revenue. Spending increases during the same period, primarily in public safety, necessitated a drawdown of reserves. Postrecession, a rebound in revenue and cuts in expenditures began to correct the city's fiscal course, but Seattle's pension funding took a hit as assets declined in value.[1]

FIGURE 1

Seattle Governmental Revenue, Percent Change From Pre-downturn Peak, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

Source: Pew calculations from Seattle's Comprehensive Annual Financial Reports for fiscal 2007-11.

Revenue started to rise from new excise taxes and charges and fees

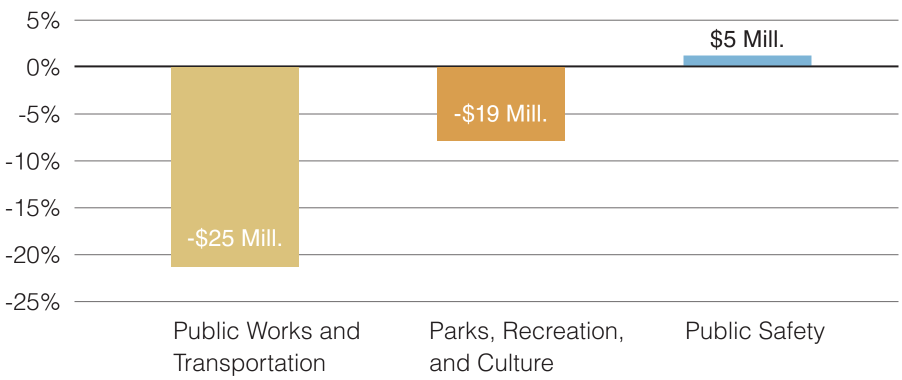
A $60 million decline between 2007 and 2009 drove Seattle's revenue to its low point. Those losses, combined with operating spending growth of $83 million, forced the city to draw down about two-fifths of its reserves. Over the following two years, however, Seattle experienced a small $19 million rebound in revenue, dominated by increases in business and excise taxes.[2] Charges and fees, which included fines and forfeits and parking fees, also grew. Together, these categories offset small declines in property tax collections and aid from other governments, which fell despite federal grants from the American Recovery and Reinvestment Act.

Operating spending declined after the recession

With revenue only partially back to the pre-downturn peak and reserves diminished, Seattle cut operating spending $44 million between 2009 and 2011, including a $25 million reduction in spending for public works and transportation and $19 million for parks, recreation, and cultural facilities. (See Figure 2.) The former was attributed to less spending on capital projects and lower staffing levels in the Department of Transportation.[3] In fact, between 2009 and 2011, parks, recreation, cultural facilities, social services, health, housing, and economic development all experienced declines in staffing levels.[4] Public safety spending, however—the city's largest expenditure category—increased $5 million between 2009 and 2011.[5]

FIGURE 2

Key Drivers of Change in Seattle's Operating Expenditures, 2007-11



Note: Amounts are in 2011 dollars.

Source: Pew calculations from Seattle's Comprehensive Annual Financial Reports for fiscal 2007-11.

Managing the future: Reserve levels were down, and pension assets took hits, too

Demand for services, investment decisions, and revenue performance driven by economic activity and demographic changes will shape Seattle's fiscal future. Long-term factors of financial health, which can be analyzed using the data available, are pensions and retiree health care obligations and reserve levels.

As city revenue increased, reserves began to be restored—growing $27 million in 2011. Nevertheless, the 2011 fund balance was still $111 million below the prerecession high. In November 2011, Mayor Mike McGinn and the City Council approved a new policy to increase reserves with required annual contributions.[6]

Seattle's pension funding level, nearly 100 percent before the recession, fell to 83 percent in 2010.[7] A 22 percent loss in assets by the Seattle City Employees Retirement System a year before led to this significant drop. The city's 2012 budget approved fully funding annual pension obligations.[8]

See Pew's 30-city interactive at pewstates.org/City-Fiscal-Conditions-Interactive for complete data.

Endnotes

1 See the full study methodology at pewstates.org/City-Fiscal-Methodology for a detailed explanation of the terms used in this profile and view the underlying data at pewstates.org/City-Fiscal-Conditions-Interactive.

2 Real estate excise taxes are distinct from property tax revenue because they are taxes levied on the sale of property rather than its value. Real estate excise taxes are considered "other taxes." See methodology for a detailed explanation. In Seattle, these taxes increased substantially in 2007 because of a larger-than-anticipated amount of real estate transactions. City of Seattle, *Comprehensive Annual Financial Report, for the Fiscal Year Ended December 31, 2007* (2007) 36, https://www.seattle.gov/cafrs/2007/pdf/2007%20CAFR%20Complete.pdf.

3 City of Seattle, *Comprehensive Annual Financial Report, for the Fiscal Year Ended December 31, 2010* (2010), 12, http://www.seattle.gov/cafrs/pdf/2010CAFRComplete.pdf.

4 City of Seattle, *Comprehensive Annual Financial Report*, *for the Fiscal Year Ended December 31, 2011* (2011), 264, http://www.seattle.gov/cafrs/pdf/2011CAFRComplete.pdf.

5 Debt service also increased $5 million, though Seattle's 2011 debt is within its proscribed debt policy, which requires at least $100 million of its legal debt limit be set aside to respond to emergencies such as "major natural disasters or other significant threats to public health or safety." City of Seattle, "Debt Management Policies" (2003), 2, http://www.seattle.gov/financedepartment/12adoptedbudget/documents/2012AdoptedBudget_002.pdf.

6 City of Seattle, *2012 Adopted Budget*, 40–41, http://www.seattle.gov/financedepartment/12adoptedbudget/documents/2012AdoptedBudget_002.pdf.

7 For more information on and analysis of the state of retirement funding in the 30 cities, see The Pew Charitable Trusts, American cities project, *Cities Squeezed by Pension and Retiree Health Care Shortfalls* (March 2013), http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_city_pensions_brief.pdf.

8 Seattle.gov, "Mayor McGinn's Statement on City Budget" (Nov. 10, 2011), http://www.seattle.gov/news/detail.asp?ID=12266&Dept=48.

This profile captures key financial trends before, during, and after the Great Recession for St. Louis, one of 30 cities examined by The Pew Charitable Trusts' American cities project. These profiles provide baselines for understanding the fiscal conditions of our cities and for ongoing research, analysis, and policy guidance.

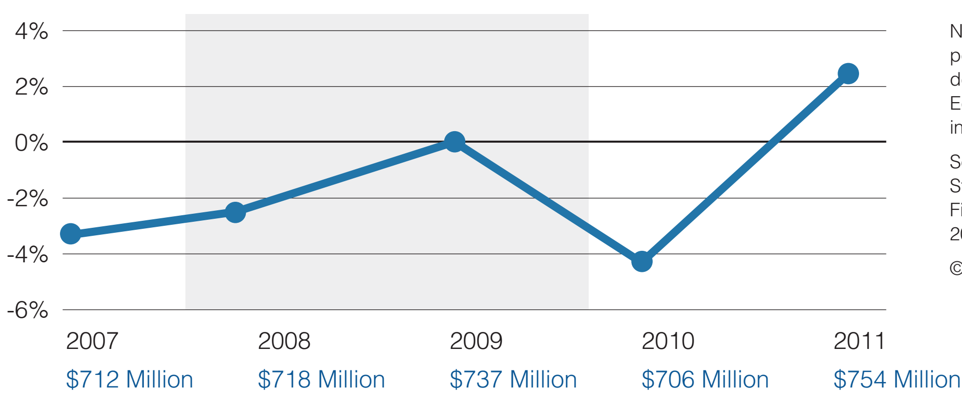
St. Louis

St. Louis bounced back two years after the Great Recession as revenue rebounded and spending was cut

St. Louis' revenue bounced back in 2011 from the Great Recession to surpass the previous peak by 2 percent, but financial challenges remain. Increases in aid from other governments and sales tax, the city's largest revenue category, drove the growth in 2011 revenue. (See Figure 1.) At the same time, operating spending decreased, helping the city bolster its reserves. Meanwhile, St. Louis' pension funding levels took a hit during the Great Recession, though reform efforts are moving forward.[1]

FIGURE 1

St. Louis Governmental Revenue, Percent Change From Pre-downturn Peak, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

Source: Pew calculations from St. Louis' Comprehensive Annual Financial Reports for fiscal 2007-11.

Total revenue dropped $31 million from its peak in 2009 to the low point just one year later, after adjusting for inflation. The main factors in those losses were declines in the gross receipt tax and St. Louis' earnings and payroll taxes.

Despite the losses, operating spending increased $17 million in 2010, led by housing and economic development. That spending growth forced the city to draw down reserves by 38 percent.

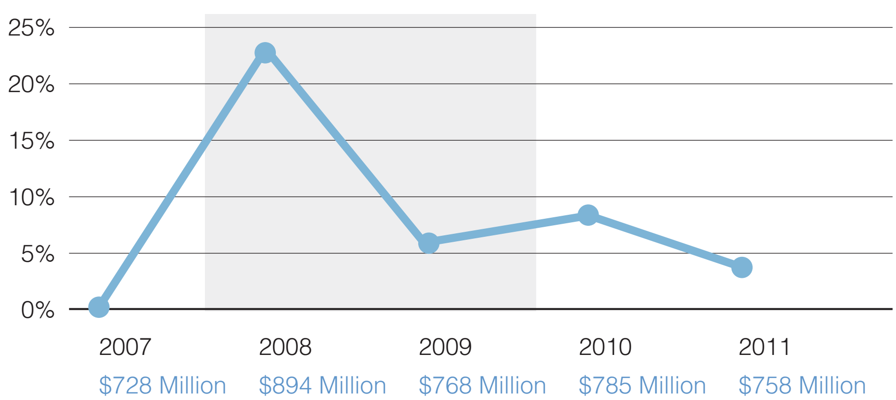
Almost every revenue stream contributed to the 2011 rebound, and spending cuts continued

Virtually all of St. Louis' revenue categories bounced back in 2011. The largest growth was a $19 million increase in intergovernmental aid, which included some funds from the American Recovery and Reinvestment Act. Sales tax receipts rose $11 million after an increase in the rate on the MetroLink light rail system, and a $9 million rise in charges and fees was mainly because of new refuse collection fees.[2] Voters approved the continuation of the city's income tax through 2016, when another referendum will be held.[3] Property tax collections were the only revenue source to decline between 2010 and 2011, though they did so by less than 1 percent.

With reserves diminished from earlier revenue losses, St. Louis cut operating spending $27 million in 2011. (See Figure 2.) Public safety, the city's largest expenditure category, declined $11 million in 2011, despite a voter-approved, dedicated, half-cent sales tax passed in 2007.[4]

FIGURE 2

Change From 2007 in St. Louis Operating Spending, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research.

Source: Pew calculations from St. Louis' Comprehensive Annual Financial Reports for fiscal 2007-11.

Managing the future: St. Louis is working to rebuild reserves and reform its pension system

Demand for services, investment decisions, and revenue performance driven by economic activity and demographic changes will shape St. Louis' fiscal future. Long-term factors of financial health, which can be analyzed using the data available, are pensions and retiree health obligations and reserve levels.

The tax and fee increases and spending cuts helped St. Louis replenish $3 million in reserves in 2011. Looking forward, the city's strategic financial plan recommends allocating 5 percent of total expenditures toward rainy-day funds.[5]

Although the city's pension plans were 87 percent funded in 2010,[6] the rising cost of firefighter pensions threatened the closure of firehouses—an outcome ultimately averted in 2011 by an infusion of federal grant money.[7] Mayor Francis Slay has focused on revising the firefighters' pension system: In 2012, city aldermen approved substantial changes that would create a city-run system with lower benefits for new hires. A recent court ruling affirmed the reform package, though the plaintiffs may appeal.[8]

See Pew's 30-city interactive at pewstates.org/City-Fiscal-Conditions-Interactive for complete data.

Endnotes

1 See the full study methodology at pewstates.org/City-Fiscal-Methodology for a detailed explanation of the terms used in this profile and view the underlying data at pewstates.org/City-Fiscal-Conditions-Interactive.

2 City of St. Louis, Missouri, *Comprehensive Annual Financial Report, Year Ended June 30, 2011* (2011), v, http://www.metrostlouis.org/Libraries/Annual_Financial_Reports/FY_2012_Comprehensive_Annual_Financial_Report.pdf.

3 David Hunn, "St. Louis Voters Overwhelmingly Approve Earnings Tax," *St. Louis Post-Dispatch* (April 6, 2011), http://www.stltoday.com/news/local/govt-and-politics/st-louis-voters-overwhelmingly-approve-earnings-tax/article_186f67d3-fdd5-5b3f-862c-6f6a726f9184.html.

4 The tax is "solely for the purpose of providing revenue for the operation of public safety departments, including police and fire departments." St. Louis City Revised Code, Chapter 5.24: Sales Tax, http://www.slpl.lib.mo.us/cco/code/data/t0524.htm; City of St. Louis, *Comprehensive Annual Financial Report, Year Ended June 30, 2010* (2010), 210, http://stlouis-mo.gov/government/departments/comptroller/documents/fy10-cafr.cfm; and David Hunn, "St. Louis Police Chief to Recommend Cutting 80 Officers," *St. Louis Post-Dispatch* (April 17, 2012), http://www.stltoday.com/news/local/govt-and-politics/political-fix/st-louis-police-chief-to-recommend-cutting-officers/article_2a4fbadc-88d3-11e1-b04f-0019bb30f31a.html.

5 City of St. Louis, *Comprehensive Annual Financial Report, Year Ended June 30, 2011* (2011), II, http://stlouis-mo.gov/government/departments/comptroller/documents/fy11-cafr.cfm.

6 For more information on and analysis of the state of retirement funding in the 30 cities, see The Pew Charitable Trusts, American cities project, *Cities Squeezed by Pension and Retiree Health Care Shortfalls* (March 2013), http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_city_pensions_brief.pdf.

7 David Hunn, "Federal Grant Will Save St. Louis Firefighters' Jobs," *St. Louis Post-Dispatch* (March 31, 2011), http://www.stltoday.com/news/local/govt-and-politics/federal-grant-will-save-st-louis-firefighters-jobs/article_2e2303f3-81a9-54e8-ba09-c394f16297e0.html.

8 Nicholas Pistor, "Judge Upholds St. Louis Overhaul of Firefighter Pension Plan," *St. Louis Post-Dispatch* (June 3, 2013), http://www.stltoday.com/news/local/govt-and-politics/political-fix/judge-upholds-st-louis-overhaul-of-firefighter-pension-plan/article_ca9d7e6b-b482-5a51-bb2a-1fa9e19d3176.html; and David Hunn, "St. Louis Aldermen Approve Pension Cuts, but Court Battle Looms," *St. Louis Post-Dispatch* (July 14, 2012), http://www.stltoday.com/news/local/govt-and-politics/st-louis-aldermen-approve-pension-cuts-but-court-battle-looms/article_0967b2e9-932d-507e-93ce-165296120546.html.

This profile captures key financial trends before, during, and after the Great Recession for Tampa, one of 30 cities examined by The Pew Charitable Trusts' American cities project. These profiles provide baselines for understanding the fiscal conditions of our cities and for ongoing research, analysis, and policy guidance.

Tampa, FL

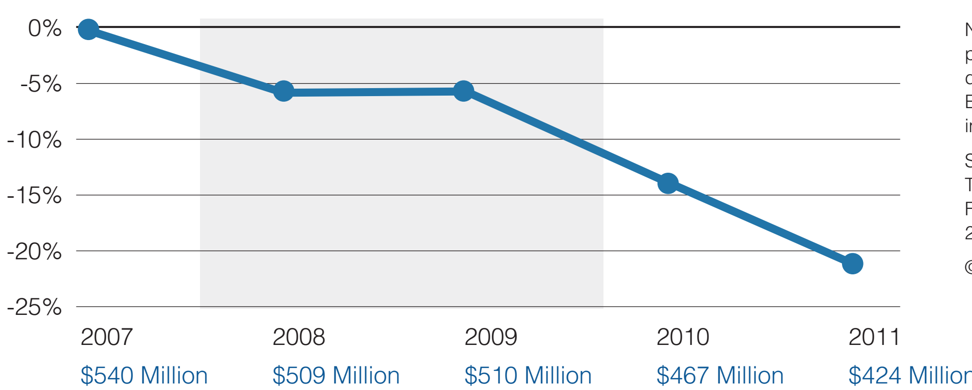
Tampa faced across-the-board revenue declines during and after the Great Recession

Two years after the end of the Great Recession, revenue was still falling in Tampa, driven down by the housing crisis, changes in state law governing property taxes, and unemployment levels that remained stubbornly high. As a result, the city's annual budget surpluses turned into shortfalls by 2011. Reserves remained well funded, though drawdowns began in 2010 and were expected to continue. As city officials explore options to control future costs, growing pension and retiree health care liabilities will be significant factors.[1] The housing bust and state tax reforms contributed to revenue losses.

Tampa's revenue declined in every major category between the 2007 peak and 2011 bottom—falling 22 percent after adjusting for inflation. (See Figure 1.) Property tax collections dropped nearly one-third, or $55 million, largely because of state property tax law changes designed to reduce burdens on homeowners.[2] Intergovernmental aid also fell by $37 million during this period, despite the influx of federal funds through the American Recovery and Reinvestment Act.[3]

FIGURE 1

Tampa Governmental Revenue, Percent Change From Pre-downturn Peak, 2007-11



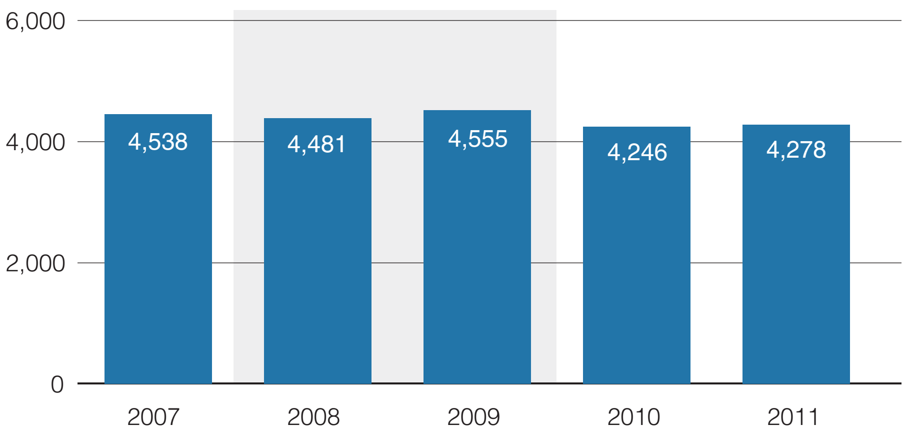
Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

Source: Pew calculations from Tampa's Comprehensive Annual Financial Reports for fiscal 2007-11.

Operating spending increased $45 million between 2007 and 2011, largely because the city retired existing debt in 2011.[4] That one-time expenditure will likely reduce debt service payments in years to come. To deal with shortfalls, between 2007 and 2011 Tampa also cut $5 million in spending from all other budget areas, in part by eliminating 260 positions.[5] (See Figure 2.).

FIGURE 2

Tampa Full-Time Equivalent Employees, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research.

Source: Pew calculations from Tampa's Comprehensive Annual Financial Reports for fiscal 2007-11.

Managing the future: Tampa has maintained significant reserves despite frequent drawdowns, but pension and retiree healthcare liabilities are mounting

Spending commitments, demand for services, and revenue performance are among important factors that will affect Tampa's future fiscal health. Long-term factors of financial health, which can be analyzed using the data available, are pensions and retiree health care obligations and reserve levels.

Although revenue had been declining for years, Tampa did not draw on its reserves until 2010 and 2011, and even then did so in a very limited way.[6]

Pension and retiree health care liabilities continue to rise while the city explores options to control future costs.[7] Tampa's pension funding level was 95 percent in 2010 thanks to consistent payment of the annual recommended contribution for its two plans. Even so, the city's pension plans decreased from a high of 104 percent funded in 2007, mostly because of increasing costs. In addition, Tampa had not set aside any funding toward its retiree health care commitments as of 2010.[8]

See Pew's 30-city interactive at pewstates.org/City-Fiscal-Conditions-Interactive for complete data.

Endnotes

1 See the full study methodology at http://www.pewstates.org/City-Fiscal-Methodology for a detailed explanation of the terms used in this profile and view the underlying data at pewstates.org/City-Fiscal-Conditions-Interactive.

2 State-imposed limits on property taxes, intended to aid homeowners during the recession, were implemented in 2008 and compounded the effect of the downturn. The following year, the city restored its property tax rate to approximately 2007 levels. For owner-occupied properties, a cap was set to restrict increases in assessed value to 3 percent per year. In addition, a one-time measure required municipalities to roll back collections to levels from the prior year, largely keeping property tax revenue flat and effectively reducing the property tax rate. City of Tampa, *Comprehensive Annual Financial Report, for the Fiscal Year Ended September 30, 2011* (2011), 3 and 16, https://www.tampagov.net/dept_accounting/files/CityofTampaCAFR2011.pdf; Trista Winnie, "Florida Property Taxes," *NuWire Investor* (June 21, 2007), http://www.nuwireinvestor.com/articles/florida-property-taxes-51106.aspx; and Constitution of the State of Florida, Article VII: Finance and Taxation, Section 4: Taxation; assessments (2013), http://www.leg.state.fl.us/Statutes/index.cfm?Mode=Constitution&Submenu=3&Tab=statutes#A7S04.

3 City of Tampa, *Tampa Recovery and Reinvestment: Status of Funding Opportunities for the City of Tampa* (2013), http://www.tampagov.net/information_resources/recovery/status.asp.

4 City of Tampa, *Comprehensive Annual Financial Report, for the Fiscal Year Ended September 30, 2010* (2010), 28, http://www.myflorida.com/audgen/pages/mun_efile%20rpts/2010%20tampa%20part%201.pdf; and City of Tampa, *Comprehensive Annual Financial Report, for the Fiscal Year Ended September 30, 2011*, 29.

5 City of Tampa, *Comprehensive Annual Financial Report, for the Fiscal Year Ended September 30, 2011*, 161.

6 Moody's Investors Service, "Moody's Assigns Initial Aa2 Rating to the City of Tampa's (FL) $19.4 Million Taxable Non-ad Valorem Revenue Bonds, Series 2011," new issue (Dec. 8, 2011), https://www.moodys.com/research/MOODYS-ASSIGNS-INITIAL-Aa2-RATINGTO-THE-CITY-OF-TAMPAS-FL--PR_233050; and City of Tampa, *Comprehensive Annual Financial Report, for the Fiscal Year Ended September 30, 2010*, 28 and 116.

7 City of Tampa, *Comprehensive Annual Financial Report, for the Fiscal Year Ended September 30, 2010*, 4.

8 For more information on and analysis of the state of retirement funding in the 30 cities, see The Pew Charitable Trusts, American cities project, *Cities Squeezed by Pension and Retiree Health Care Shortfalls* (March 2013), http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_city_pensions_brief.pdf.